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POLITICAL SCIENCE QUARTERLY

CHINA IN REAPPRAISAL: MENACE TO AMERICAN SECURITY?

IN East Asia lies one of the crucial points of international conflict in our time, and in the East Asian conflict the United States is dangerously, even inextricably, involved. If this conflict should culminate in a local war and then expand into a world war, the United States will be one of the earliest and principal contenders. This will not be without precedent. The United States was a party of primary interest and a main contender in the East Asian conflict that culminated in war in 1941. It had indeed been a party of primary interest in East Asia, then called the Far East, since the beginning of this century.

Why? Why deeply involved in Asia while firmly asserting non-participation in Europe and steadfastly abiding by it until 1917? Why has the United States staked so much on the other side of the Pacific, on China in particular? This question, on which one major war has been fought and another is threatened, is one that American historians, political scientists, statesmen and students of international affairs have never answered, never even squarely faced. On every other question arising in America's relation to the outer world there has been direct knowledge and clear understanding. Non-participation in European politics, security in Latin America through the Monroe Doctrine—these have been clearly reasoned and accepted in the national consensus. On policy in East Asia alone has there been no acceptance by consensus or even clear consciousness, to say nothing of definition, of what the policy has been. We have taken positions that led to war without recognizing that

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we were taking such positions, without knowing why and without express ratification by public opinion. There was no such understanding before the disaster at Pearl Harbor, no understanding of what had led up to the Japanese attack that left us no choice but war. There is no understanding now of what has led to the rancorous, almost deadly hostility with China, one that makes the peril of war with China almost as clear as the peril of war with Japan over China was.

It is time that we deliberately set ourselves to answering the question, why? Why the fateful preoccupation with the Far East? The issue there turns on China. Before 1941 it could be stated as the Open Door or the preservation of equality of opportunity for American trade with that country, which had been expanded to mean the integrity of China as the only assurance of equality of opportunity. And when Japan not only threatened the integrity of China but openly manifested her intention to make China a colony, the United States stood inflexibly in opposition and the collision came at Pearl Harbor.

Between 1900 and, say, 1931 the United States was in the process of fashioning a hostage to be given in the Far East, and it is necessary to be clear about the country's motives. These cannot be judged from the years following the Second World War. Since 1945 the motive has been definitely that of security. Russia is a putative enemy and China is her ideological affiliate and political and military ally. Russia patently strives by indoctrination, economic penetration and latent military force to bring all Asia under her sway, with China as her spearhead in East Asia. With Asia lost, America's position in the world would be jeopardized; but Russia has designs in Europe too, and if the whole Eurasian continent fell to Russia and China, America would become a beleagured island in a communist sea. Clearly, then, the motive for American concern in the Far East now grows out of fear for national security.

Until 1900, however, there was no thought of security. The question never arose. Even Mahan, the best-known American philosopher of naval strategy, who was acutely conscious of all that touched the national interest, did not have security in

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mind when he expounded his theory of a chain of bases, especially in the Pacific. He was thinking of trade, now that the United States had become industrially mature. Any idea of a menace to the country's security arising in the Pacific would have seemed far-fetched then. It is revealing to read the debates in the United States Senate on approving the treaty of peace with Spain, especially on the provision for annexation of the Philippines. There, too, it is clear that there was no thought of security. The advocates of annexation were urging only the commercial advantages that would accrue from possession of a base from which to push out for the trade of the Asian coast. Many strands of thought and aim entered into the formation of the motive for assuming a strong position in the Far East, but the main one can be said to have been economic—the market of the Far East, especially China, and not the existing market but the potential one. The lure of the wealth of the Orient has tempted men of many lands for centuries, and Americans since the beginning of the republic. The United States was second only to England in importance in the China trade through the nineteenth century. As an indication of its interest and a portent of the future, when the first treaty with China was contracted in 1844, after the British had battered down China's gates, the United States asked and obtained from China most-favored-nation status, which guaranteed that whatever rights or favors China thereafter extended to any other state would automatically accrue to the United States—the Open Door policy in germ.

In the last five years of the nineteenth century China's fate appeared to be sealed, its end as an independent country foreshadowed. Its main ports were governed by other countries. Whole regions had been marked out as spheres of influence of the major Powers. It was heavily mortgaged to foreign lenders. Important public services were under foreign service or control. The preliminaries to partition after the manner of Africa appeared to be set. It was then—in 1899—that Secretary of State John Hay sent out his circular notes enunciating the Open Door doctrine. The United States, it should be observed, did not protest against the existing incursions in China or seek

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to interdict the threatened partition. On the contrary, it recognized the spheres of influence and foreign control of the ports and was silent on further acquisition of possessions and privileges. It asked only that the Powers agree that in whatever spheres or ports they had or would have, there would be no tariff duties, harbor duties, railway rates or other impositions that discriminated in their own favor and against others—the most-favored-nation status made explicit and acknowledged by all.

This was in 1899. In 1900 in another series of circular notes, Mr. Hay extended the Open Door doctrine to a guaranty of the territorial and administrative integrity of China. This was not illogical. It was obvious that without the territorial and administrative integrity of China, there would be no Open Door in China, no equality of opportunity for trade. Why should an expanding Power have incurred the cost, political risk and administrative responsibility of taking and governing territory in China only to share the profits with others, especially if it was a Power not industrially efficient enough to compete successfully with, say, Great Britain? If it paid the political and military cost it would want the material return. The United States for its part wanted no Chinese territory. It had always refrained from taking any, although it had ample opportunity to do so: overseas territorial possessions were still repugnant to its anti-colonial tradition. It wanted no territory anywhere but equal opportunity for trade everywhere.

Thus there crystallized the American policy in the Far East, the policy on which the country was to stake everything a generation later. The replies from the other Powers to the two series of notes were evasive and disingenuous. They could mean everything or nothing, which in effect could be translated as nothing. The fact was that no Power intended to bind itself, with the possible exception of Great Britain, which was surfeited with territory except as required to counterbalance territory acquired by her political rivals, and also, since she was then commercially paramount, preferred assurance of equal commercial opportunity.

As it turned out, the Open Door was honored more in the

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breach than in the observance. The earliest and most glaring infractions were by the Russians, who were established in Manchuria after 1898 and were effectively excluding all others—more particularly after the Boxer Rebellion in 1900, when the Russian expeditionary forces remained in Manchuria after the troops of all other Powers were withdrawn. It was obvious that Russia meant to close off Manchuria and would push southward into North China unless something intervened to stop her, and wherever she went others would be excluded.

In the ensuing years the United States pursued a vigorous diplomatic campaign against Russia over her monopolistic acquisitiveness in China. America's requests for clarification, her *démarches*, her protests were all in vain: Russia replied volubly, evasively and immovably. The conflict came to a head as Japanese-Russian rather than American-Russian, for Russia was implacably moving on Korea as well as Manchuria and thus Japan was put in mortal peril. Japan, too, protested and negotiated, also in vain. When Japan had no other recourse if she was not to live with the shadow of subjugation over her, and after, moreover, she had gained the alliance with Great Britain—which feared Russian aggression in the Far East as much as the United States—she struck suddenly, and the Russo-Japanese war was on. In that war Japan had the diplomatic, moral and financial support of Great Britain and the moral and financial support of the United States. This expressed not so much a positive preference for Japan as resentment of Russian aggression. But the effect was to keep Japan going economically until, to the astonishment of most of the world, Russia acknowledged defeat.

Russia was defeated but the Far East was not freed from political instability and the threat to China's integrity was not lessened. The only change was that Japan took the place of Russia, especially in Korea and South Manchuria. By the Treaty of Portsmouth concluding the war Japan took over Russia's perquisites and possessions in South Manchuria—the leaseholds on Dalny (Dairen) and Port Arthur on the coast and the southern half of the railway across Manchuria, together with the policing and mining rights that went with the railway.

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Then the Japanese proceeded to try to do what Russia had tried—to close off South Manchuria as a private spoils ground. Thus began the friction between the United States and Japan that soon became unconcealed hostility and later culminated in war.

About the validity of the economic motive for America's sponsorship of the integrity of China there has been much debate and perhaps a good deal of oversimplification. It has generally been argued that the premise on which the policy was based was fallacious, since American trade with China never amounted to more than a negligible proportion of its foreign trade—2 per cent on the average. Against this two things must be said. First, so far as results in international politics are concerned, it is irrelevant whether the premise of the policy was valid or invalid. If a country accepts a certain belief and acts on it, the results in international politics are the same whether the belief is sound or unsound. The United States did believe that the Open Door and the integrity of China were worth taking a strong stand for and therefore sought to prevent a violation, and thus Japan's hostility was incurred. Whether it should have adopted that belief is for the economist to debate, not the student of international relations. It is extraneous to the political issue.

The second thing to be said is that the 2 per cent argument is oversimplified international economics. It is true that American trade with China until the Second World War was negligible; but that signified nothing as to the potentiality of the Chinese market. It proved only that China had not yet industrialized. A country not yet industrialized can buy little from the outer world. It lacks the means of payment either in bullion or goods (unless it happens to have a huge store of raw materials needed elsewhere) and its demands are limited to simple consumers' goods. Its reality as a market enters only when it begins to industrialize, when its demands broaden to include capital goods and its increased productivity enables it to pay for more imports. And as industrialization intensifies with the new means of production, its demands increase still more, as does the volume of its imports. Only then can its full potentiality as a market

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be measured. There is Japan for illustration. In 1900 her foreign trade was negligible; she had not yet industrialized. By 1940 she was America's third best customer; she was then an industrially mature country. Thus, when it is said that the economic expectations from China were illusory because the trade with her never amounted to more than 2 per cent, all that is shown is that China up to 1945 was where Japan was in 1900. It had begun to industrialize but only begun.

II

In any event the policy of sponsorship of the Open Door and the independence and integrity of China was adopted and acted on. This meant that no great Power would be permitted to get control of China. As it turned out, the restraining order was directed against Japan alone after Russia had been defeated by the Japanese and the First World War eliminated the European Powers as contenders, since they were left too spent for colonial expansion. But Japan's intentions became increasingly clear and America's resolve to obstruct them became correspondingly clear. From the Twenty-one Demands imposed on China in 1915—a direct attempt to establish a protectorate—to the overrunning of Manchuria after 1931 and the invasion of China proper in 1937, Japan advanced steadily and America more openly stood in her way. Each step brought them closer to actual confrontation and after the start of the Second World War and Japan's overt measures to finish off China as an independent entity, it became increasingly difficult to postpone, and then to avoid, collision. One side or the other had to recede. Japan had to abandon her ambition to make China a colony or the United States to accede to China's absorption by Japan. Neither would retreat. The protracted negotiations through 1941 were unavailing. Pearl Harbor came inevitably.

Japan was crushed and that danger was eliminated. But conflict in the Far East remained. In so far as the aim of the war was to establish there an order in which peace could be maintained the war was fought in vain. The indispensable condition to such an order was a strong and united China, no longer subject to rival foreign intrusions. And that condition

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was not brought about. China was free of the invader but she was left torn by a civil war—the old conflict between the Nationalist government and the Communists.

It is unnecessary here to enter into the question why the Chinese Communists succeeded in evicting the Nationalists and taking over the country. The fact is they did, and the consequences in international relations are unaffected by the reasons; China is communist and is allied with Russia. She is therefore a subject of international strain as before. As an ally of Russia she is involved in the Cold War. Also the question of her integrity arises again, even if she is now strong and presumably united, and this brings in the United States and its historical position. It may be assumed that the United States has not changed from warm friendliness toward China to sharp antagonism out of differences in social philosophy. The United States would be regretful but not openly hostile if China had only changed her economic institutions and introduced state control. The affiliation of China to Russia as power unit as well as ideological associate is what has exercised both the American government and American public opinion. There is the implicit belief—whether justified or not is another matter—that Russia is succeeding where Japan failed and that China, if not falling wholly under Russian control, will become a satellite, her power at Russia's disposal. To that danger America is reacting as she has for half a century.

Now, however, there is this difference, that economic considerations play a small part in the reaction. Now, as has been said, it is exclusively, or almost exclusively, a consideration of security. Not only has China's power presumably been added to Russia but China is herself manifesting tendencies to expansion and aggression on her own account. The United States, looking at the present, is uneasy; looking ahead, it is fearful. Also it is resentful because it has a sense of betrayal by a country it has traditionally befriended and had fought a long and bitter war to save from an invader. Not only is that country ungrateful but it has gone over to a potential enemy and is itself a declared enemy. Fear and resentment have combined to produce the almost obsessive preoccupation

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with China that has characterized American foreign policy and the near-hysteria that has characterized American public opinion in the mid-1950's. They have produced, too, the unshaken resolve to keep China ostracized—to refuse recognition to her government, to exclude her from the United Nations and to erect an economic barrier around her.

Now that we are concerned about our security in the Pacific, with China as the direct cause of concern, it is imperative, now more than ever, for the United States to ask itself just what it wants in the Far East and why, how much China matters to it and why, and how much it is willing to stake on it. And on the basis of the answers to those questions, and only on that basis, must it lay its course of action in the Far East. Few decisions are more fateful for its future.

III

It must first be asked, then: are not Americans now in their irritation egregiously exaggerating the importance of China, and, still more, are they not creating a myth of a portentous danger that does not exist in reality? In one respect this is not altogether new. Americans have long had a tendency to overweigh China's rôle in world politics, and this apart from economic motives. Britons and Europeans have always found puzzling what they considered American sentimentality about China and miscalculation of her importance. Churchill in his memoirs of the Second World War repeatedly reports his astonishment on this score.

> At Washington I had found the extraordinary significance of China in American minds, even at the top, strangely out of proportion. . . . I said [to President Roosevelt] I would of course be helpful and polite to the Chinese . . . but that he must not expect me to adopt what I felt was a wholly unreal standard of values. . . . China bulks as large in the minds of many of them [Americans] as Great Britain. . . . If I can epitomize in one word the lesson I learned in the United States, it was China.[1]

Again: "The President and his circle still cherished exaggerated

[1] Churchill, Winston S., *The Second World War*, Vol. IV: *The Hinge of Fate* (Boston, 1950), pp. 133–34, *passim*.

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ideas of the military power which China could exert if given sufficient arms and equipment." [2] It is well known, too, that after the war the British only with extreme reluctance assented to China's elevation as a great Power and inclusion among the five permanent members of the Security Council of the United Nations. That inclusion, as a matter of fact, would never have come about except for American insistence. At one time this had little consequence. When China was friend or ally it was not serious that we overestimated her importance, nor did the sentimentality in which the attitude was expressed matter very much; but if now we overestimate China's importance as an enemy the consequence can be serious.

Let us ask then, what is the danger raised by China and how great is it? If her power is the only ground for fear, and there can be no other rational ground, what is her power—now and in the proximate future? To answer this it must first be asked, what constitutes power in our time? Clearly it is constituted of population, resources, accumulated wealth, industrial structure, scientific knowledge and technological advancement. Of these properties what has China? Obviously China has only manpower in any considerable degree, considerable, that is, in the calculation of world power politics. But of what use is manpower for military purposes in our time without the other properties? It is highly useful for defense no doubt. Indeed, it makes China all but impregnable on her own soil. The war with Japan demonstrated that. But strength for defense, the ability to repel invasion, carries no danger to another state, certainly not to the United States, and it is inconceivable that the United States would invade China with an army after the Japanese manner if there were a war. China's only real asset, now or in the proximate future, need raise no fears in the United States or for that matter in any other reasonably strong Western state. China cannot be conquered, but neither can she conquer.

What else is there besides manpower? China is not particularly well endowed with natural resources. For its size the country is in fact poorly endowed. True, not all of it has

[2] *Ibid.*, p. 783.

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been intensively explored, and as it pushes its effective control north and northwest and, more particularly, as it pushes exploration and development in those areas, more may be uncovered; but even so it is handicapped in the effort to become a formidable industrial Power measured against the United States, the Soviet Union and Germany. In Manchuria there are coal and iron; elsewhere there are tungsten, tin, and other minerals and metals in small quantities. There is enough, especially in Manchuria, for industrialization, but not to provide the foundation for a great military Power now or in the easily measurable future.

There is little or no surplus wealth. In an agrarian society, capital accumulation is almost imperceptibly slow, and for the enormous capital outlay required to lay the basis for modern heavy industry, China is now and for long will be dependent on outside sources—as it happens in her present political affiliation, Russia. The industrial establishment is still meager, rudimentary by modern Western standards. Of that which is indispensable to effective warfare what can China produce? Heavy artillery, tanks, jet planes, heavy bombers, nuclear bombs, guided missiles, radar, the whole armory of electronic devices—even motor trucks? To ask the question is to answer it. China has only begun in heavy industry and for all except simple machine tools is still dependent on external sources.

Communication and transportation facilities are primitive by modern Western standards. Railway mileage has increased notably since 1950, especially in the direction of border areas, but it is still negligible. Highways and vehicles to move on them also are negligible. Neither raw materials nor finished products can be efficiently mobilized and moved to central points. Still less is to be said for the technological level of the country. Technically trained personnel existed only in trace until after the close of the Second World War. When the Japanese industrial enterprises were taken over in 1945, Japanese managerial personnel had to be retained to keep the enterprises going—until the Russians carried off all the machinery and left the huge complex despoiled and destitute. There were until 1950 only the barest facilities for training engineers and super-

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vising staff. Skilled machinists and maintenance workers were few. In this there has been a great change under the communist impetus but it can hardly be said to be more than a beginning. In technology of the level required for modern industrial effectiveness China is still in the elementary stage, though relatively rapid progress can be expected.

To sum up, China as she stands in the mid-1950's has none of the requisites of military power. Her strength is derivative. She now and for many years can serve only as transmission belt for Russian military power. She succeeded temporarily against American forces in Korea because her mass army was provided with means coming directly from Russia, and, too, because America was restrained by reluctance to precipitate a war with Russia that would launch a world war fought with nuclear weapons. All this is changing no doubt. Under Russian tutelage and with capital underwritten by Russia, China is embarking on heavy industrialization at a forced pace. From this fact and on the precedent of Russia's own transformation since 1920, many facile conclusions have been drawn, especially as China also has laid down a five-year plan. How valid are these conclusions? What analogy can be drawn with Russia? And what can be expected of China by way of industrial and, therefore, military power in the early future?

As a matter of fact the analogy is forced. The two countries are barely comparable except in that there is a state-planned and state-controlled economy in both, that both are communist in philosophy and practice. Both were retarded in industrial development when they adopted communism, but the degree of difference between them in that respect is so great that deductions from Russian experience lead to facile but erroneous conclusions when applied to China. Herein lies the main reason for the unwarranted exaggeration of China's contemporary importance and the danger that she presents.

There is a tendency to assume that before the advent of communism Russia was what is now called an underdeveloped country, an unwarranted assumption. The vast area of Russia may have been mostly agricultural, but nevertheless there was also, in the western part of the country certainly, a high degree

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of assimilation of Europeanism in thought, ways of living, economic activities, scientific knowledge and technical experience, though not, of course, in political institutions. This part of the country had been facing westward for nearly two centuries. There was a high degree of advancement in both theoretical and applied science. It had scientists in no small number who could meet European scientists as peers. It had institutions for scientific and technical education. It had modern means of transportation and communication, manufacturing establishments, public works, public services. It had well passed the early stages of industrialization. There is no valid comparison between Russia in 1917 and China in 1949. They were in wholly different stages of economic organization.

Russia, too, had far greater advantages for industrialization than China. Mainly she had vaster natural resources. Few countries are in fact as fortunately endowed in resources, whereas China's resources are relatively meager. Russia had great stores of raw materials to export in exchange for producers' goods or for capital formation. She had the advantage of a much better system of transportation and public works in general, even making allowance for the destruction in the First World War. There was, too, a much more ample food supply than in China. Russian peasants in general were poor but much less poor than Chinese. Nor was the country overpopulated. There was room for expansion and for development of virgin sources of raw materials. If Russia advanced in industrialization as rapidly as she did between the inception of the first five-year plan and the present, that was more because of the base from which she started than because of communization, and communization alone will not give China the same stride even with five-year plans.

Nevertheless, China has entered on an ambitious program of economic modernization. She is now at work on a five-year plan to be completed by 1957 and followed by a second one. The first is designed to lay the foundation of an industrial system which will put China on an equal footing with the industrial West. The initial emphasis is on heavy industry—iron and steel, machinery, electric power and coal for fuel. At

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the same time efforts are being made for a considerable increase in food supply by means principally of collectivization or co-operatives as an intervening stage. Measured against what China was in 1949 or is now, fulfillment of even the first plan and more definitely the second will mark distinct progress, but measured against the advanced countries of the West, it will still be far from formidable.

Steel production, for example, will come to 4.12 million tons in 1957. While this will be almost five times greater than the production in any year before the communist revolution, it is trivial compared to the more than 100 million tons the United States is producing annually. Electric power production by 1957 is set for nearly 16 billion kilowatt hours, compared to more than 500 billion in the United States or 72 billion in Canada, a country small in population. Coal will come to 113 million tons, compared to an average of nearly 500 million tons in the United States, and the United States also has plentiful oil. Perhaps it is more revealing that China's steel production in 1957 will be less than one eleventh of Russia's in 1955, and Russia has been developing rapidly in thirty years—and still produces less than half as much steel as the United States. At the best it will take more than that for China to come that far. The first Chinese automobile and tractor plants are still to be completed. It is hoped to produce 4,000 trucks by 1957, which will not take China very far in modern industrial enterprise. Absolutely, then, China is making material progress and can be expected to continue to do so, but power is relative, and relatively China can be expected to count for little by the standards of West Europe and North America for many years.

China has two formidable obstacles to overcome. The first and more serious is lack of capital. Russia had primary products to sell abroad in exchange for machinery and Japan could depend on the exportation of raw silk to get foreign exchange in the period of her greatest industrial progress. China on the other hand will have little to export. There will be a few commodities like tungsten, antimony, tung oil and perhaps, for a period, agricultural products, though with a rapidly growing population to feed and more of the population going into industry, the

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internal demand for whatever can be raised also will grow. Nor is there much margin for expansion of crop-raising land. A little will be contributed by water conservancy projects, flood control and reclamation, with some vacant land in Manchuria to be brought under cultivation; but to these there are limits. Furthermore, China cannot raise herself by her bootstraps and get her capital from within rapidly enough for industrial expansion at the tempo she has set. Little can be squeezed from the people's savings. Most of the population already lives on the line of subsistence.

China will have recourse, then, almost exclusively to foreign loans. Under the international political conditions that can be foreseen for a long period, that will mean recourse to Russia alone, with perhaps some lesser contributions from satellite nations. In view of the fact that Russia is still engaged in her industrial construction, is at the same time maintaining a costly military establishment and, further, has undertaken a program of economic aid to Asian and North African countries, it can be taken for granted that there will be definite limits to what China can expect from her. Some capital goods and technical assistance and guidance Russia can give, as well as loans amounting to a few hundred millions, but these will not carry China very far, very fast.

The second obstacle is backwardness on the land. Given the level of the technical knowledge of the Chinese peasant—or the lack of the scientific aids now at the disposal of the Western farmer—he is highly efficient and gets as much out of the soil as can be got; but that is not enough to support a growing population. It is possible that collectivization will give a more efficient and productive use of the land; but that is a tenuous assumption in light of the experience of other newly communized countries. To bring agriculture to the scientific and productive level of the West, mainly by the use of chemical fertilizers, will require large sums for either domestic manufacture or purchase from abroad. There is little prospect of allocation of large sums for importation of the amounts of fertilizers required, nor will enough be available for construction of plants for domestic production if construction in other sectors of industry

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is to go forward. Therefore, China will not be able to increase agricultural production sufficiently to provide a surplus for exports to pay for capital goods from abroad. Still more, if the country remains backward agriculturally, at least as measured by quantity of production, and the peasants remain poor, there will be an unbalanced economy and an unhealthy society, as unhealthy as Japan's before the last war.

IV

Now, if this reasoning is sound, there is a long period to cushion any threat from China alone. That she can be a direct menace to the United States within that period is unthinkable. For the present and perhaps for some decades to come her importance, political and military, will lie in her own environs. This means that by aggressive acts or infiltration in Southeast Asia, for example, she could precipitate a minor war that could quickly expand into a major war drawing in all the great Powers. There could, in other words, be another Korean episode which could not be localized. But here, too, China's rôle would be only that of vanguard. If she invaded Thailand or Burma she could be stopped, provided Russia did not come in. She was stopped in Korea despite the self-denying ordinance the United States laid upon itself. She could be stopped in Thailand or Burma, too, though with greater difficulty and at greater human cost—provided that Russia did not support her with force.

Again, however, it is Russia that constitutes the element of danger, of disturbance of the *status quo* in Southeast Asia, and not China. Therefore what China herself can do in her current headstrong and intransigent mood or in resentment at American hostility is to launch on some adventure without calculating the consequence and plunge the whole world into war. China's recklessness America cannot control (might not Russia if presumably she, too, fears a world war?) but what America can do is to contrive to give China no more ground for bitterness or provocation for recklessness than the whole state of world politics calls for. The United States can refrain from acts that will seem to be goading China to prove that she has the power

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to cause trouble and thus precipitate something that Americans will be compelled to resist. This will be easier if we appraise China rightly, if we measure her power accurately and if we take into account her psychological state and thus understand her motives. This last is perhaps most important. A clue to it can be found in China's recent history and may provide a key to policy and action for the United States.

The Chinese are irritating, no doubt—swaggering, defiant, provocative. Is it because they are Communists or because they are innately aggressive or because they have deliberately decided on conquest? That can be doubted. The explanation lies rather in a psychological state produced by the experience of a hundred years. For nearly all that time they suffered defeat, humiliation, subjection to foreign rule in a large part of their land and foreign domination in nearly all the rest of it. A people with a historical memory, a memory of periods of racial and cultural grandeur, they were galled by the experience, the more so in that they were helpless and even protest brought on more humiliation. Then suddenly, they found they could reassert themselves, begin to recover their patrimony and retaliate with impunity for their humiliations. The successful demonstration, one of which they had dreamed but scarcely dared to hope for, had a galvanic effect on the spirit and for a generation now they have been riding high in elation and recklessness. Each new success has given a new lift to the spirit and led to more boldness and to overconfidence. And thus they have at times come to overestimate their power and their capacity to get their way, leading sometimes to disaster. And this is important now.

It was in the years following 1927 that the Chinese first manifested the tendency to overreach themselves. The Nationalist movement arose in the years preceding and, with the aid of Russian communist indoctrination, which gave organization and *élan*, gathered force throughout the country and compelled the Western Powers to yield many of their possessions and privileges. Residential and trading settlements and areas in the ports were retroceded. Tariff autonomy was conceded in principle and granted in fact in a few years. Extraterritoriality

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for foreign residents had to be waived in reality in so far as foreigners no longer had the power to enforce it. In five years relations between the Western Powers and China had undergone revolutionary change. The process of recovery of full sovereignty seemed to be well under way. The accumulated results of eighty years of Western pressures were being nullified. Simultaneously China was being welded into unity under the hammer blows of the Kuomintang armies carrying the banner of nationalism. Regeneration was evidently in progress. A thrill ran through the country, and it carried the country away, carried it beyond the bounds of cool judgment.

Misled by what they had accomplished and the ease with which they had done so, the Chinese forgot that the states they had forced to retreat were distant, economically depleted by the world war and war-weary. They were in no mood or condition for colonial expeditions, least of all one of the magnitude required to suppresss Chinese nationalism. The Chinese overlooked, too, the tough fact that Japan was near and neither depleted by the war nor war-weary, and Russia also was a neighboring state and had had a rebirth of energy from the revolution.

Oblivious of this difference or too heedless to take account of it, China moved. She acted with a thoughtlessness hard to explain except as a symptom of irrationality. Russia in Manchuria was the first target. On May 27, 1929, Chinese police under the jurisdiction of the Three Eastern Provinces government at Mukden, which had declared its adherence to the Nationalist government at Nanking, raided four Soviet consulates in Manchuria and arrested some forty Soviet nationals. The Moscow government protested sharply, of course. Nevertheless, a few days later, on June 2, the Soviet Consul-General in Mukden, the vice-consul at Harbin and the Russian director of the Chinese Eastern Railway, who were on their way to Moscow, were taken off the train at Manchuli, on the Russian border, and placed under arrest. Then on July 10 Chinese police swooped down on the headquarters of the telegraph and telephone systems of the Chinese Eastern Railway, then under joint Chinese-Russian management, and closed them. They also forced out of office the Russian manager and assistant man-

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ager of the railway. Two hundred Soviet employees of the railway were arrested and sixty of them, including the manager and assistant manager, were deported.

Russia reacted promptly but with considerable restraint. She asked only that the measures taken by the Chinese be canceled, the arrested Soviet citizens be freed, and a conference be called to examine all questions relating to the jointly controlled railway. China replied evasively and then on July 20 broke off diplomatic relations with the Soviet government. When the rest of the world showed increased concern the Chinese government began to make conciliatory gestures but Moscow would accept no partial concessions. Negotiations remained inconclusive until, in November, Russia struck in earnest. A small force crossed the border, small but plainly meaning business. Chinese troops scuttled almost without offering resistance. It was a farcical affair. The Russians could have swept through the whole of Manchuria, but the Chinese government quickly beat a diplomatic retreat. Russian terms were accepted in full and the *status quo ante* was restored as Russia had demanded in July. For China it was an ignominious defeat but the most serious consequences were to be felt elsewhere.

The Manchurian fiasco had repercussions beyond Manchuria. Japan was taking careful note. While the Japanese were still in their short-lived liberal phase when Chinese nationalism was most clamant and were sympathetic toward it, influential elements were becoming restive. They could foresee that what China was doing south of the Great Wall she might attempt to repeat north of it and that the Japanese hold on South Manchuria would be jeopardized. General Tanaka and his group among the military, with some bureaucratic and industrialist support, were by 1929 pressing the "positive policy", by which they meant taking steps to put the Chinese in their place, to make them realize they could have their way with Europeans and Americans but not with Japanese when Japan's vital interests were at stake. The Chinese débâcle in North Manchuria taught them two things. It showed how easily the Chinese could be dealt with by those who took the trouble to do so. It showed, too, that the Western Powers were not disposed to

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interfere, notwithstanding the League of Nations and the Kellogg Pact.

The test was not long in coming. While the Japanese had acquired confidence from the North Manchurian fiasco, the Chinese for their part did not learn caution from it. They did not act as precipitately with the Japanese as they did with the Russians, but there was no mistaking their intention, and no disposition on their part to use subtlety by way of concealment. On the contrary, they were vocal. There were forces in South Manchuria working in their favor anyway. The region was being populated by Chinese from south of the Great Wall who emigrated in huge numbers every year to the open lands in the north and stayed first as peasants, then as small shopkeepers, then as owners of small business enterprises. By 1930 there were almost 30,000,000 Chinese in Manchuria. More and more large-scale enterprises were beginning to come under their ownership. It could be foreseen that the time was not far distant when the Japanese military might rule and the most complicated and costly heavy industrial establishments would be Japanese, but everything else would be Chinese and the larger share of the profits Chinese—much as in Singapore. It would, then, have been the part of wisdom for the Chinese to move slowly and cautiously, obliquely if possible, and let time work for their country.

The Chinese were still in no mood for caution, however. This was understandable. Japanese encroachments had incensed more than those of the West. For one thing, the Chinese had always looked patronizingly on Japanese as upstarts. Furthermore, the memory of the Twenty-one Demands was still fresh, the demands that constituted the most serious threat that had ever been leveled at China's continued existence as a nation. Impatience to consummate the recovery of control over the destiny of the nation by its own people was natural but regrettable, for Japan was powerful and not given to renunciation. There were defiant statements and some rash minor acts; and, most of all, the building of railways parallel to the Japanese-controlled South Manchuria Railway, which Japan had interdicted, went on apace. There was evidence that the Japanese

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military were reasoning that it was necessary to act before it was too late. Japan had only to wait for a pretext or manufacture one, at which the Japanese military were adept. In the heated atmosphere of the time, incidents were inevitable and the Japanese made one—the explosion on the railway tracks near Mukden—which they blamed on the Chinese. The Japanese military had resolved to settle the Manchurian question once and for all. Immediately after the explosion—on the night of September 18, 1931—the Japanese moved in force. Chinese troops were driven off with ease and in a few months all Manchuria was Japanese. Perhaps it could not have been avoided in any case, but the Chinese had given Japanese extremists a pretext. They had overestimated their power.

It was much the same in 1937, though the case is not so clear and China had greater justification for desperation. The Japanese, too, had had their heads turned, first by the easy success in Manchuria and then by the no less successful defiance of the Western Powers at the League of Nations. The country was now in the grip of the most aggressive of the military. Opposition to them was stilled by terrorism and, when required, assassination of high government officials. The dominant cliques in the army had now apparently arrived at the conclusion that it was time to settle the whole Chinese question once for all. There was clear indication in the detachment of five provinces of North China, which in effect were being ruled by Japanese army officers. The Chinese people could foresee their fate. For them to remain cool and deliberate and patient was not easy. Then at the end of 1936, when Chiang Kai-shek was released from captivity after having been kidnapped by Chang Hsueh-liang's troops, effective unity seemed to have been demonstrated. Again spirits rose. There was an upsurge of hope and enthusiasm. China could now face the enemy. Again China let herself go. Patriotic organizations were formed to resist Japan. There were calls for war and threats of war. But the Japanese military, now completely beyond control, were in no mood for defiance even in words. Another incident was manufactured—this one outside Peiping on the night of July 7—and the invasion was on. The incident was to come

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to one climax at Pearl Harbor and another in September 1945, with the occupation of Japan under General MacArthur.

Now, no one can say that Japan would not have struck sooner or later in any case. Probably she would have. But surely the Chinese gave her an excuse, when cool deliberation and a detached appraisal of the relative power of the two countries would have dictated discretion, a minimum of overt declaration and a conscious effort to gain time, for China beyond doubt was growing stronger year by year, and every year that passed without war was so much gain. As it was, the Chinese people suffered inhuman torments and the eventual outcome was Communist rule.

There is a parallel now, and this has direct bearing on the problem of Chinese-American relations and the choice of American policy toward China. The present Chinese régime has achieved a success far surpassing anything in China's modern history. On the record it has indeed performed miracles. The Communists in 1937 were pent in a small barren corner of the Northwest, with a few bands of guerillas operating at scattered points throughout the country. They had managed in previous years to escape annihilation by the larger, better-equipped forces of Chiang Kai-shek, but just managed. But the long war that followed the Japanese invasion gave them the opportunity to spread over much more of the country while fighting Japanese.

After the Japanese surrender, the two armies, Nationalist and Communist, confronted each other with ill-concealed hostility and civil war seemed imminent. American efforts to bring about reconciliation failed and in mid-1946 the war broke out. In the first year of the war the Nationalists took the offensive and unfortunately for themselves stretched their lines too far and too thin. Then the Communists turned and in a succession of brilliant strokes put the Nationalists to rout. Victory followed victory. One Nationalist region after another fell. By mid-1949 the Communists held the whole country. In less than two years they had driven Chiang Kai-shek with his three million troops and American arms across a large part of the Asian continent and then, with only a small remnant of

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his army, off the continent to the island of Formosa. And there he remained, beleaguered and saved only by the shield of the United States Seventh Fleet.

On the record it was one of the magnificent victories of modern war, but only on the record. It was less a Communist victory than a Nationalist defeat, for Chiang Kai-shek's troops were badly led and fought without spirit. Moreover, he had no support from the Chinese people, who had been alienated by years of misrule and spoilation. Nor was it a great victory for communism as philosophy or institution. It was not an achievement of Lenin or Stalin or even Mao Tse-tung, but rather of the Japanese militarists who gave the Communists the opportunity, under the guise of a patriotic war, to spread their power and influence as they could not have done otherwise, at least for years. And in this the Japanese had the assistance of Chiang Kai-shek and his supporters, without whose obscurantism and malfeasance the Chinese people would not have been benevolently neutral toward the Communists.

On the record, however, it was a magnificent victory for the Communists and they had so construed it. They had all but destroyed a powerful army and driven what was left off the continent. Like other Chinese before them, they, too, had their heads turned. They, too, acquired inflated ideas of their strength, forgetting that history had worked for them. Then came the Korean War and the Chinese intervention, by which MacArthur's army was sent reeling halfway down the Peninsula. On the record, that, too, was a notable Chinese achievement, but that, too, only on the record. In the first place, MacArthur had refused to believe that the Chinese would come in and failed to take the necessary precautions. In the second place, the United States fought with self-restraint, a restraint imposed by the whole Western world's fear of a war with Russia. It was American reluctance to challenge Russia rather than respect for China that gave Chinese Communists immunity. But the Chinese saw only that they had bearded the world's strongest Power, the one that had humbled Japan. They had challenged it and revealed it a "paper tiger". It is in this psychology they now remain, and because of it they breathe fire, defy, threaten.

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In that mental and emotional state, too, they could let go in adventurism without calculating consequences and bring disaster on their country once more—but disaster on the whole world as well. It is that state and not their communist ideology or their innate aggressiveness that prompts their words and acts now. And America should take account of this before all else in formulating policy and devising the appropriate political and military strategy.

V

There are a few basic conditions and facts from which any thinking on present and future American relations with China must proceed. First, the past closed with Pearl Harbor and the Chinese communist revolution. Second, while China is entering on the construction of a new society, one founded on modern economic institutions, the military power those institutions confer will not be theirs for decades, and within that period China cannot be a state of the first magnitude, to be feared as such. Third, China now is acting as much out of irrationality as by calculated purpose and this, while not eliminating the danger it presents, changes the nature of the danger.

The first point is obvious. China has become communist; she is unified and growing stronger; she is allied with Russia; on all discernible evidence Russia is bent on winning the whole world to her own form and authority. Thus, little or nothing of what went into the making of American policy in the Far East before 1945 is pertinent now. The Open Door, as it was originally conceived and proclaimed and then clung to, is irrelevant. It may be relevant again when and if all forces in international society have changed, but until then equality of opportunity in the pre-1914 sense has no meaning. China has a state-controlled economy and her foreign trade is affected with the political, the power-political, interest. The "potentialities" of her market are therefore determined by wholly new and different forces.

So, too, the guarantee of China's independence and integrity as it was conceived between 1900 and 1945 has no application. It can be taken for granted with reasonable certainty that

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China will ensure her own integrity. If she links herself to Russia with bonds more binding than the conventional alliance and does so voluntarily, that is another matter. American injunction against that also is another matter, one that is hardly conceivable unless America is willing to go into a world war for the right to decide the political configuration of the Far East. If Russia should move, without China's consent and by the use of force, to absorb China as one of the component "republics" of the Soviet Union, then considerations much like those before 1941 might enter. Then it would be necessary to decide whether that would make the world so intolerably dangerous that it was necessary to stake the nation's survival on preventing it. But the contingency is not likely to arise. That China will in the near or even more distant future become so weak that another Power can nullify her independence and make her a dependency is a far-fetched and unreal assumption.

If the traditional American Far Eastern policy requires re-examination, then the logical conclusion is that it must be based hereafter on considerations of security. For the next phase at least, economic motives are not valid or even practical. Given American productivity, foreign trade in general will remain essential and the addition of an outlet in China would be convenient and ease the economic problem, but it will not be so necessary as to require the taking of a political position that carries possibilities of international conflict. It is in the realm of security and security only that China enters into American calculations on foreign policy.

What are the factors in the problem of security vis-à-vis China? If it is true that military power in our time derives from industrial and technical power, China herself must be reckoned with only secondarily. She can by herself do very little now to jeopardize the United States, and she will not be able to do very much for decades. The industrialization of Japan, for example, was well under way by 1900, and forty years later that country crumbled quickly when America's hands became at least partially free, precisely because its productive establishment was not equal to the demands put upon it for effective warfare in our time. Even with allowance for

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the acceleration of development which technological advances now make possible, China will not be much better equipped than Japan in less time. In that interval the bases and instruments of power will be lacking to China, and in that interval her part in the problem of American security is that of accessory to Russia, or spearhead and transmission belt for Russian power or, it might turn out, web for Russian entanglement. This last is to say that China may recklessly perpetrate some aggression that the United States will have to resist and Russia will then have to come to China's aid because she cannot for reasons of prestige allow China to be defeated.

In the first two instances—accessory or spearhead—the initiating agent is Russia. What happens, then, between America and China will be determined by what happens between America and Russia. Presumably Russia will not call on China as accessory or spearhead unless on her own deliberation she has decided on a general war and has calculated that the time and circumstances are such as to make her reasonably confident of victory. The focal point in American foreign relations, therefore, is Russia, not China. American foreign policy must be directed to Russia, and military and diplomatic strategy devised to give effect to that policy must be directed to Russia. If war with Russia comes in the near future, say the next twenty-five years, China will have more than nuisance value but not much more. The Far East will be a subordinate sector as in the Second World War or, if it is the main sector, Russia will be the main enemy to contend with. Until her forces will be eliminated or crushed, the United States will not be able to win. Either there will be a drawn peace or the United States will be defeated. In whichever case, China will be no more than a minor factor. It should, therefore, be only a minor factor in the determination of American foreign policy and the equation of national security.

America's present preoccupation with China is out of scale in the contemporary political configuration, is altogether distorted out of perspective. It is small wonder that most of the world is perplexed and at times impatient with what seems to it shortsightedness, political immaturity or irrational obsession.

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Most of the older states associated with the United States or in general sympathetic to it, overtly or with slight concealment, either oppose the United States in its present China policy or conform with reluctance, mainly because the United States is their shield or the buttress of their economy or both. The time has come for the United States to restore perspective and examine calmly what is involved in relations with China and act in accordance with the analysis. For the United States, too, and not only for China, is there need for recovery of poise and balance, for calm and rational deliberation and decision based on facts and forces and not out of overwrought emotion.

No doubt there is a psychological explanation for the American attitude, too, for emotions that override the purely rational. Less than a full generation ago the American people abandoned the traditional principle of politics that had sustained the republic from its beginning and served it well. The country renounced non-participation in European politics and entered the First World War. It did so, believing that thus it could contribute to the founding of a system of enduring peace under an order in which democracy would prevail for all. It tipped the scale to victory on the side of its allies and itself only to find that everything would be as it had been, that the spirit and manner of world politics were unchanged. Disillusioned, it recoiled back to the traditional principle of non-participation, mistakenly called isolationism. Then a little more than twenty years later it again abandoned the principle and entered another world war, again for much the same purpose—to bring about enduring peace and end the now more revolting threat to democracy. And once more it found that the rule of force still prevailed, that conflict was still the state of world politics, conflict the worse for the challenge of Russia, a Power that combined might with tyranny. The expenditure of life and wealth was in vain. The effort had failed in all except escape from defeat. Once more there was disillusionment, but now frustration found a vent in anger.

In the Second World War and its aftermath there were poignant complications, for it was over China that the United States was precipitated into actual hostilities, though unavowedly

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and indirectly it was already a party to the war in the Atlantic. It was the American refusal to allow Japan to consummate the conquest and colonization of China that provoked the Japanese to attack, and it was almost exclusively by American effort that Japan was crushed and China saved. Since the beginning of the twentieth century the United States had been sponsor and guarantor of China's integrity and at last had had to make good the guaranty with its blood. And then China became communist, became communist just when Communist Russia was making a bid for world dominion and declaring her hostility to America; then, too, China allied herself with Russia when war appeared to be probable, if not imminent—five years after China had been rescued from extinction by America's young men. That there should have been a sense of faith broken, of ingratitude and betrayal, and bitter resentment in consequence is natural and understandable and to a great degree justified; but it is an unfortunate state, even if psychologically warranted, in which to determine a course of action in international politics at a time when war, lethal war, hangs in the balance.

Nor has there been any emollient for that outraged state when China attacks, as in Korea, imputes mean motives, spreads hate, prods, contemptuously jeers and makes aggressive gestures. But it must be remembered that neither has there been emollient for China's psychological state when the United States refuses to acknowledge that the Communist régime controls the country and refuses to recognize the government, refuses to permit the new régime to be represented in the United Nations and induces others to do likewise, thus ostracizing China from international society, and, moreover, arms a hostile segment in Formosa. Resentment has produced counter-resentment, each sharpening the asperity of the other and inflaming emotions. Each country has reasons for its psychological state, each has contributed to the exacerbation of the other's. And in that condition each confronts the other, not so much in cold hostility as in tensed, rasped nerves. This could be the pebble that, easily loosened, would release an avalanche that left the world in ruins.

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What, then, shall be done? The first requirement is not to take China too seriously. Resentment at broken faith, chagrin, irritation at swagger are one thing; fear is another. And there is no ground for fear, at least not for a long time. Once again: China is dangerous now in that, overestimating her power and driven by recklessness or a desire to score off America, she might commit some act that would develop into a world war. And yet again: in that case the danger to America would be levied by Russia's power, not China's. Therefore, it is the part of wisdom to take account of the psychological springs of China's motives, shrug off her egregious words and gestures and give no provocation to passions already inflamed, no challenge to her swollen pride which she would feel obliged to vindicate. Forbearance and firmness are not mutually exclusive. The United States has enough power and prestige to give it the self-assurance to let China's jibes and her truculent, minatory declarations pass without notice. For it must be borne in mind and taken with philosophical resignation that China must be self-assertive if only to proclaim to the world that she is now an equal and incidentally assure herself that she is.

Then there are the substantive issues that lie between the two countries. These are serious but not formidable, certainly not insuperable, incomparably less so than those that divide the Soviet and Western blocs. There is thus the question whether and how they can be composed, a question that must eventually be faced if ever there is to be stability in the Pacific and East Asia and, therefore, ease of mind for the United States. What are these issues? Aside from details that are bargaining counters, like the American prisoners in China, they are: recognition of the Chinese Communist government, admission to the United Nations, Chinese troops in Korea, Chinese incitations in Southeast Asia, Formosa. There is nothing in those issues that is beyond settlement or compromise, given a relaxation of emotional tension. The most difficult, of course, is Formosa.

It is realized and tacitly admitted by all except the immovable that sooner or later recognition and the place of Communist China in the United Nations will have to be dealt with. Nowhere, probably not even in Formosa, is there any longer

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the slightest belief that the Nationalists can return to the mainland and the Communist régime thus be overthrown. If the Communists are to be overthrown at all it will be as a by-product of a world war in which the Russian bloc loses or as a consequence of such disaffection among the Chinese people as to provoke a successful revolution. That last is not to be counted on for a long time, and the question of recognition cannot be held in abeyance so long. The pretense that a government that exercises effective control over more than 500,000,000 people does not exist and cannot be dealt with in ordinary intercourse is so artificial and devoid of logic and the lesson of political experience that it cannot long be maintained. Most of America's allies are already restive under the necessity of maintaining it. Since the Communist government exists and recognition of a government does not denote either amity, approval or trust, there is no valid reason to withhold it. There are on the contrary valid reasons for granting it, because China's position in the world is such that there will be important questions to negotiate with her. The present situation is untenable except on grounds of irritation—poor grounds for political action—and it cannot or should not long endure.

The same is true of admission to the United Nations. If China is classified as a great Power and one of the five permanent members of the Security Council, it is fantastic that the government of the country should not be represented at all and that the seat of one of the permanent members should be occupied by the representative of 10,000,000 people on an island off the coast, a government maintained solely by the grace and power of the United States Navy. This anomaly troubles many of the countries in the United Nations, including some of America's allies, and Communist China would have been admitted long ago except for hesitation to offend the United States. There are unmistakable signs that the hesitation is diminishing and it is not unlikely that the Communists will be voted in even against American opposition. It would be better for the position and prestige of the United States if admission were granted with its assent, even if regretful.

Nor on any dispassionate examination can it be shown that

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recognition and admission to the United Nations would militate against American security. Recognition would change nothing essential as far as security is concerned and might even contribute to lessening concern by relieving tension and diminishing the chance of incidents that could expand. Admission to the United Nations would not materially change the balance in that organization, at any rate not enough to jeopardize the American position. The Soviet bloc already has veto power and can stop as much now as it could with another vote in the Security Council. And if by some chance—an unlikely chance—the Soviet bloc should command seven votes in the Security Council or a two-thirds majority in the Assembly, the United States has veto power and can block any measure vitally affecting its safety. In short, neither recognition of the Chinese Communist régime nor its admission to the United Nations would make much difference to America's position in the world or the power relation in any appreciable way.

These two questions can be settled as a prelude or accompaniment to negotiation on the other issues. There is no reason why an attempt at a general settlement should not be undertaken. Nothing can be lost thereby, not even prestige if the preliminaries can be carried out through an intermediary, say Great Britain or India. Indeed, only a general settlement can be really effective, and it might be better to make recognition conditional on such a settlement: admission to the United Nations is in a different category, since that may not be in America's exclusive determination. If the United States makes concessions on these points, it is entitled to ask that China withdraw her troops from Korea. China's acceptance could be coupled with another agreement signed by a number of Powers, including Russia, guaranteeing against the infringement of the boundary of either North Korea or South Korea—a kind of Korean Locarno. That hapless country could then be left divided against the time when the larger controversy between the Soviet and Western blocs can be composed. In addition China would be asked to bind herself not to intervene in Southeast Asia either by act or infiltration. There is, of course, the risk that China would violate the undertaking: communist

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countries are not given to excessive fidelity to covenants if there is advantage in breaking them. But that risk is latent in any international agreement, and if it were an insuperable obstacle there could never be international agreements of any kind when there was less than perfect trust between Powers. If China did violate her pledge her guilt would be clear before world opinion and, if she were called to account before the United Nations or any other tribunal, the United States would have the support of most of the world, as it does not now in its China policy.

This leaves Formosa, and here there is closest to impasse. First of all, it may be laid down almost with finality that there can be no amity, trust or normal relations with any Chinese government, whatever its ideological composition, so long as there is alien control or influence in Formosa. No Chinese government, no matter what its philosophy, will tolerate the detachment of an island so near its shore any longer than its weakness compels it to. If by a miracle the Nationalists should return to the mainland they would soon press for the withdrawal of American or any other foreign forces from Formosa.

There are thus three possibilities. Formosa can be taken over by the Communists either by force or by the Nationalists' peaceful surrender. Or, Formosa can remain under Chiang Kai-shek and the Nationalists with American protection. Or, by agreement it can be given an interim status, internationally administered under United Nations auspices, with the formal understanding that after a stipulated period it should revert to the mainland or a plebiscite be held to determine its future; meanwhile, asylum could be given elsewhere to such of the present leaders as desire it.

The first of these means almost certain war under present political conditions. That Chiang will voluntarily withdraw is beyond belief while he has American protection. And an open attack on the island by the Communists would be resisted by the United States fleet and there would be a Chinese-American war, with Russia almost inevitably coming in on the side of her ally.

The second offers little more by way of settlement, stability

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in the Pacific or prospect of peace. On the contrary, so long as the present conditions last there will be suspicion, rancor, tension and an inflammable situation which can ignite at any time. It is merely to extend the time in which there can be no real peace, and war is the only definitive solution. It means that the American Navy will have to stand on guard, presumably forever, for obviously, if ever it withdraws, the Communists will attack. The prospect of a considerable part of the Navy circling a besieged island four thousand miles from the nearest American shore, time without end, is fantastic. At the best this is a device of postponement, a clumsy device, its futility subject to exposure at any time.

We shall come to the third sooner or later unless there is to be war. But if we are to come to it the United States must renounce or revise its present strategic conception—a conception, incidentally, that is new and may be inspired by political rather than military considerations. As China grows stronger, as plainly she must, Formosa will be a precarious bastion. The chain of bases of which so much is heard will have one fragile link, which means that it will not be a very substantial chain. The Chinese are obviously building air bases all along the coast and some day will be able to saturate Formosa with bombs and paralyze the American air arm there. Nor would Communist China's control of Formosa materially increase the threat to the Philippines and Southeast Asia, for Canton, now Communist, is as close to Manila, say, as Formosa and could be attacked from there as easily as from Formosa. Formosa ceases to be a danger to American security only if there is a friendly China on the mainland. As long as China on the mainland is hostile to the United States, Formosa is of little insurance to American security even if there are American planes on the island and an American fleet in its waters. It is really the American state of mind rather than strategical principles that stands in the way of settlement of the Formosa problem. That this state of mind can be recast in the immediate future is hardly to be expected. Public opinion has been built up and cannot be demolished quickly or even altered. But that may some day be possible, perhaps with the assuagement of relations between

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the United States and Russia. Until then we shall be frustrated in dealing with the Far East.

If the actual issues between the United States and China can be settled in the way just outlined, there will not necessarily follow amity and mutual trust. But these are not indispensable; it is enough if the present state of armed truce is relieved. If that cannot be, then we remain as we are, the risk of conflagration remains, and we are called upon to keep our balance and exercise restraint. Once again: we are called upon to bring into play our analytical faculties, to ask ourselves what China means to this country now and in the future, to calculate how much should be staked on her and how much danger she constitutes in our time. In retrospect, while it cannot be proved, the burden of evidence is that her importance economically to this country was exaggerated in the past: her potentialities were not essential to the American economy although their realization would have been helpful. And now that security rather than economic advantage is in question the burden of evidence is that China does not now and for a long period cannot menace American security so greatly as to constitute a major factor in the equation of foreign policy. She is an auxiliary in the Cold War and nothing more. She should be so considered and so treated. American relations with her should be subordinated in the laying down of policy and strategy. What she says and does should be seen in proportion. China need not and should not be taken too seriously.

The Cold War is serious indeed, however, and Russia is the main enemy. There lies the central point, the focal point, the cardinal point of American foreign policy. How the Cold War will end, whether by peaceful accommodation or the clash of arms, will be determined by Russian-American relations. And by what Russia does, not China, will America and the West stand or fall. In time China will be of prime consequence but it can be anticipated that before then there will be decision in the larger conflict of which the Cold War is the contemporary manifestation. Decision can take one of three forms. First, there can be continuation of the present anomalous state—neither peace nor war but a tenuous armed truce. Second,

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there can be unavowed drift in live-and-let-live, neither side trustful, both sides on guard, but with the habit of tolerance forming as a foundation for genuine peaceful coexistence: the mutual fear of thermonuclear war works in that direction. Third, there can be world war. It can be confidently assumed that one of these three will have arrived before China comes to maturity in physical and military power. Until then the China question should be seen in perspective, not in the light of the prevailing exaggeration. It should be judged by realities.

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SHIFTS IN THE STRUCTURE OF THE INTERNATIONAL MONETARY SYSTEM

IN speaking of the "international monetary system" we mean the system created by the International Monetary Fund Agreement in force since December 27, 1946. Following the Gold Reserve Act of 1934, the system replaced the previous gold-coin (or gold-bullion) standard by a gold-management standard; that is, the gold value of the monetary units is no longer maintained by the convertibility of paper money into gold coin (or gold bullion) of the same nominal amount. Rather, it is maintained under the law—now international—by administrative management which keeps the value of the monetary unit at a fixed level in the market of gold and foreign exchange.

As is well known, the International Monetary Agreement has imposed on the monetary units of the member state "par values" accommodated to the dollar parity of $35 = one ounce of fine gold; for example, the par value for the pound amounts to 280 cents; for the Mexican peso, 8 cents; for the Deutsche mark, 23.8 cents; for the Belgian franc, 2 cents; and so on. The par value is binding also for member transactions in gold, except for a margin prescribed by the Fund.[1]

However, France, one of the first members of the Fund, as early as 1948 revolted against the par value of her franc and abandoned it,[2] creating in Paris a free market for gold. Nevertheless, she has remained a member of the Fund with the administrative powers conferred upon her by the Agreement. In 1949 Canada dropped the par value of her dollar.[3] Formosa-China, Greece, Indonesia, Israel, Italy, Syria, Thailand and

[1] International Monetary Fund, *Annual Report* [cited hereafter: *Ann. Rep.*], 1947, p. 28; *id.*, *Summary Proceedings*, 1947, p. 60.

[2] *Cf.* my *Money in the Law, National and International* (Brooklyn, 1950), pp. 535, 546.

[3] *Ann. Rep.*, 1955, p. 177, n. 1.

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Uruguay have "not yet" established a par value,[4] although Greece, Italy, Syria and Uruguay were among the first members of the Fund.

Regarding gold, the Fund was placed under particular pressure by gold-producing countries such as the Union of South Africa.[5] On September 28, 1951, the Executive Board of the Fund decided to "leave to its members the practical operating decisions" involved in their gold trade.[6] Also, there had been before and still are some free gold markets independent of the Fund, for example—in addition to Paris—in Zurich,[7] Hong Kong, Beirut and Tangier. Moreover, Canada, Belgium, Luxembourg and Greece have recently abolished their restrictions on gold transactions.[8]

In 1954 the London gold market, closed since the outbreak of the Second World War, was reopened with the consent of the Fund after the British government had given assurances that the "par value" rules would be strictly observed in the the market.[9] But the permissible "margin" for such transactions, originally amounting to only ¼ of 1 per cent above and below the par value, was expanded to 1 per cent above and below, or a total of 2 per cent.[10] The trading is done there partly in pound sterling, to be converted into United States dollars at the current sterling-dollar rate of exchange—an additional flexible factor. A new opportunity has been opened

[4] *Ann. Rep.*, 1947, pp. 42 *et seq.* In 1955 India introduced free trade in all currencies except the dollar, pound, and Pakistan rupee. Int. Mon. Fund, *International Financial News Survey* [cited hereafter: *Int. Fin. N. S.*], VII (1955), 385.

[5] *Ann. Rep.*, 1949, p. 35; 1950, p. 70; 1951, p. 43.

[6] *Ann. Rep.*, 1952, p. 95.

[7] The Swiss restrictions on the importation and exportation of gold (coins and bullion) were abolished on July 1, 1952, and the turnover tax on May 15, 1954. Bank for International Settlements, *Annual Report*, XXII (1952), 163, and XXV (1955), 136.

[8] *Ann. Rep.*, 1956, p. 114.

[9] *Int. Fin. N. S.*, VI (1954), 296; VIII (1956), 238, 358. *Ann. Rep.*, 1954, p. 116; 1955, p. 96.

[10] Decision of the Fund's Executive Board of Nov. 5, 1954. *Ann. Rep.*, 1955, p. 131.

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up to the holders of pound sterling accounts. Actually, London has again become the center of gold trade.[11]

Aside from these official changes in the structure of the system it must be realized that the law may be a weak factor in international transactions regarding currency and gold. Effectiveness of restrictive regulations will depend on the spirit and efficiency of the governments concerned, and there will always be "loopholes" for evasion.[12] Where the restrictions are contrary to popular feeling or tradition, enforcement may be ostensible only.

Moreover, the "par value" regulations of the International Agreement cannot be applied to gold coins, since at least the costs of minting have to be added to the metal value. Actually, aside from historical and artistic factors, the value of gold coins is much higher because of the demand by hoarders. New minting is, of course, a prerogative of governments, and, despite the general abandonment of the gold-coin standard, this is by no means merely a theoretical matter. In passing we might mention that the Soviet government, at the time of her military occupation of Austria and also in Hungary, apparently sent to the West various Austrian and other Western gold coins bearing dates of the past.[13] Even more remarkable, France and England are still producing gold coins of former times. The French government employs them mainly for the Paris gold market where it can sell them for profit since the hoarders prefer gold coins over bars.[14] The British government is minting sovereigns. In 1949, for example, 138,000 sovereigns were minted by the Bank of England to be used, we are told, in "international governmental arbitrage dealings"[15]—an explana-

[11] Bank for Int. Settlements, *Annual Report*, XXV (1955), 131; XXVI (1956), 152.

[12] A highly instructive discussion of these conditions is presented by A. I. Bloomfield, *Speculative and Flight Movements of Capital in Post-War Finance* (Princeton, 1954), esp. pp. 22, 67, 68.

[13] Circular Letter No. 2798 (June 25, 1952) of the U. S. Customs Office, reproduced in my article, "The Legal Status of Gold", in *Am. J. Comp. Law*, III (1954), 375.

[14] *Int. Fin. N. S.*, VI (1954), 222.

[15] See *Bankers' Magazine* (London), CLVI (1953), 369.

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tion which can hardly be taken literally because typical "arbitrage dealings" are done in gold bars rather than coins. In fact, the high market price of sovereigns may render expensive minting worth while,[16] and especially Oriental rulers might be delighted to receive the impressive and venerable sovereigns rather than bars. More sovereigns were minted in the winter of 1951–1952 and a new sovereign coin was prescribed in 1953 by royal order.[17] There are also other countries producing gold coins not destined for regular circulation.[18]

Hence, there is some trade in gold coins outside the United States, a good part of which seems to be carried on in Italy, especially in Milan. The Italian government has lately favored the domestic gold trade by removing from it all turnover taxes and customs duties while maintaining a state monopoly for imports and foreign purchases of gold.[19] The British sovereign, in addition to the French "napoleon" (*coq d'or*), is and has been the chief object of this Italian private business. Falsified sovereigns have invaded the market, but in addition some Italian schemers have counterfeited sovereigns having the full gold value; a number of these products have been smuggled into Switzerland. The British government intervened in order to obtain punishment of the counterfeiters. The difficulty has been that the criminal codes of Italy and Switzerland as well as of other countries make the legal-tender quality of the coins

[16] In June 1956 twenty thousand sovereigns were shipped to Greek banks. *Int. Fin. N. S.*, X (1956), 3.

[17] Statement by the court in the Ostinelli case, *infra*, n. 23. The annual reports of the Bank of England do not mention the subject.

[18] The Swiss *vreneli* are the chief examples. Though nominally 20 francs, they cannot be obtained by converting the notes of the Swiss National Bank. They have been sold by the Bank recently at 28.6 to 29 francs. Bank for Int. Settlements, *Annual Report*, XXV (1955), 136. Peru also produces gold coins, as appears from the Customs Office's circular (*supra*, n. 13). According to the *New York Times* of May 26, 1956, p. 28, Belgium will issue gold coins of a "nominal value" (meaning intrinsic value) of 321 francs at a price of 370 francs = $7.40. The project is represented as a "move against inflation" (?).

[19] *Int. Fin. N. S.*, VII (1955), 296.

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concerned a prerequisite of punishment. English law has never expressly taken away the legal-tender dignity from the sovereign—such a disgracing action would be contrary to English tradition and sentiment. However, the legal-tender value of the sovereign is twenty shillings but, because of the depreciation of the shilling, the value of the coin has now risen to more than seventy shillings. Hence, the twenty-shilling value has no longer any real significance and under the Defence (Finance) Regulations, 1939, sec. 2, every person within Great Britain is obligated to deliver his gold coins to an agent of the government. The question arose therefore whether under Italian and Swiss law the sovereign was still *moneta straniera avante corso legale* (*Codice Penale*, art. 110/453) or *Geld* as protected by art. 242 of the Swiss Penal Code, with the result that the counterfeiting would be placed under severer punishment than the falsification of gold coins of the past. The Supreme Court (*Bundesgericht*) of Switzerland, in a decision of July 16, 1952, denying the question, declined the extradition to Italy of the Italian culprit who was living in Switzerland.[20] The court was confronted with the multipartite extradition treaty of 1929 and an Italian-Swiss extradition treaty of 1868, both ordering the extradition of counterfeiters of money. The court held that the sovereign is no longer money—a basically correct decision, it is believed.[21] A lower Milan court seems to have taken a similar position, but the view of the British government which, through documents and experts,[22] took an active part in the proceedings was recently accepted by the Milan *Tribunale Civile e Penale* in a decision of May 26, 1955,[23] and by the *Bezirksgericht Zurich* in a decision of September 5, 1955,[24] both bodies

[20] *Entscheidungen des Schweizerischen Bundesgerichts*, LXXVIII (1), 225.

[21] The reasons are given in the article cited *supra*, n. 13, at 371.

[22] The *Bankers Magazine*, CLVI (1953), 185.

[23] *In the matter of Ostinelli and others*, Oct. 16, 1955, No. 894/55. For the material referred to in footnotes 23–25 this writer is indebted to Professor Angelo Sereni, New York.

[24] *In the matter of Stephani*, Sept. 5, 1955, Proz. No. 1110/55, referred to in *Int. Fin. N. S.*, VIII (1956), 334.

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acting as criminal courts. The reasons advanced by the courts closely follow the British argument and are elaborate, but, it is believed, are not convincing.[25] The result would be that the special and severe provisions which everywhere protect the domestic and, to some extent, the foreign currency must be applied also to all coins of the past where the legal-tender quality was not expressly abrogated or where the abrogation cannot be established.

In summary, there are many uncertainties and confusions in the legal structure of the international gold standard. This phenomenon is not surprising. Early in 1950 this writer had expressed the opinion that the International Monetary Fund has scarcely the power to meet the pressure emanating from gold transactions all over the world.[26] But that objection refers only to the legal regulations of gold transactions. On the whole the establishment of the international monetary system has proved a definite success. On the basis of well-conceived self-interest the Fund's member states, whose number is steadily growing, are collaborating with the Fund and indirectly or directly with the United States government; the Fund has been helpful especially to the weaker nations. Of course, the most important factors are the financial power and policy of the United States government based on its gold holdings of 21.8 billion dollars[27] and the economic capacities of this country. Actually, it was the United States Treasury in the first place which succeeded in keeping the dollar at the prescribed par value of $35 an ounce, when on the free markets the prices were considerably higher, moving around $50 in 1949 and $40

[25] An odd illustration of this problem was given by a recent decision of the Jury Court of Neufchatel, Switzerland, reported in the *Corriere de la Sera* of April 22, 1956. Gold medals for Pilgrims to Mecca had been counterfeited from gold. The medals had been declared "legal tender" by Saudi Arabia, but the counterfeiters were acquitted since they had no knowledge of such a declaration. But how could the delinquents in the sovereign cases know that the coin was still legal tender in contrast to the real value?

[26] In the book cited *supra*, n. 2, at 536.

[27] In 1946, $687,000,000 had been transferred to the Int. Monetary Fund. *Ann. Rep.*, 1947, p. 66.

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in 1952. Pressure for another devaluation of the dollar, led by the Union of South Africa, was successfully resisted without much ado.

However, a new phase began in November 1953. Since then the price of gold has moved in the free market down to around $35 and has even dropped a few cents below this level.[28] Hoarding of gold has definitely dropped and dishoarding has started.[29] The political disturbances arising from Formosa and from the Middle East have not changed the course of this trend. Gold offered by the International Monetary Fund to its members sometimes exceeded the demand.[30] Most remarkable is the fact that in the discussion of monetary matters and especially of inflationary dangers one meets today with little reference to gold and to the standard of the monetary unit. Attention is focused on matters of credit, prices, employment, and so on. In the past the approach was different. Until and beyond the First World War, shrinking, if not extinction, of the monetary unit was considered the main danger—or perhaps solution—of a perilous rise in prices.[31] Today no one concerns himself with the problem of devaluation, however high prices may climb—a phenomenon particularly evident in this country.

Little attention has been paid so far to this change in attitude. We may be confronted with a psychological change of far-reaching consequences. It may be that the multi-millennial craving for gold is slowly abating. Everywhere the gold-coin

[28] *Ann. Rep.*, 1956, p. 116.

[29] *Cf.* M. A. Kriz, "Gold", in *Engineering and Mining Journal*, Feb. 1956; *Int. Fin. N. S.*, VIII (1956), 238; Bank for Int. Settlements, *Annual Report*, XXVI (1956), 118.

[30] *Ann. Rep.*, 1956, p. 118. Gold held under earmark by Federal Reserve Banks for foreign account is steadily rising—4.9 billions in 1952; 6.1 billions in 1953; 6.6 in 1954; 6.8 in 1955 and 1956 (August). *Federal Reserve Bulletin*, 1956, p. 1000.

[31] Before the currencies were based on monetary units, debasement of circulating coins was the typical counter-measure. See A. Despaux, *Les Devaluations monetaires dans l'histoire* (1936); R. Gaetters, *Inflationen* (1955).

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standard has been abrogated: a generation has grown up which has never seen any gold coins except in museums or other collections. The improvement of living conditions, of social security in the widest sense of the word, may likewise be a factor reducing man's desperate longing for an ultimate tangible resource. People may instinctively feel that in the environment of the atomic age gold coin is no longer a reliable instrumentality of salvation. Perhaps it is significant that in jewelry genuineness of gold seems to have become less important.

One is reminded of the world-wide depreciation of silver which so greatly disturbed monetary systems in the nineteenth century, starting unexpectedly in 1873 and gradually dropping to less than 50 per cent. That reduction had not been foreseen either. But at least the sagging silver prices could easily and reliably be measured in terms of gold prices. Today when the value of gold itself seems to be declining, there is no such simple yardstick. Perhaps gold prices will move upward again. In any case we are confronted with a new and serious problem.

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POSTSCRIPT

It appears now that forgery of gold coins extends to the United States. In *United States of America v. Mock*, the United States District Court of California, in a decision of July 20, 1956 (143 F. Supp. 661), upheld an indictment of an American forger of United States gold coins which were withdrawn from circulation in 1934. This expansion of forgery is surprising since the United States Treasury, at variance with the British and French governments, does not use new gold coins. The question of legal tender was not involved in the California case.

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TESTAMENT OF POLITICS: AN EXHORTATION TO POLITICAL SCIENTISTS

ON many sides today we find dissatisfaction with man's efforts to circumscribe a body of knowledge called political science and to impart this knowledge to succeeding generations of students. On the one hand, we are disenchanted with our devotion to what has recently been described as "hyper-factualism". On the other hand, we have failed to find solace for our dissatisfaction in an exclusive devotion to the history of political thought.

The result today is much experimentation, as well as continued soul-searching. All of this seems highly desirable. From the experience with various instructional goals and methods, as well as from the constant scrutiny of our conceptions and data, there may yet emerge new and exciting advances in the realm of political science.

It is time to indulge our general thought on the subject matter of political science for at least two reasons. First of all, it is now becoming evident that a mood of iconoclastic disregard for the past may go too far. One seems to sense that the "new" political science begins—and ends—in social psychology, and that no one before Graham Wallas is worth studying any more. It is well to remember that political science enjoys the distinction of being one of the oldest subjects of man's study, and that the accumulation of thought and recorded deed about politics through 2500 years of Western society is most impressive. The wisdom of many ages is our heritage. In the second place, there seems to be present in some quarters today a too ready disposition to equate political thought with the political mood of the contemporary scene. This is not a new malaise. It has been evident often in the past of American political history. To go back no farther than twenty-five years, we witnessed a decade in the 1930's when political science seemed equated with the practice of the New Deal. Today those voices are largely stilled, thanks to changing circumstances and a proper concern for security clearance. Instead, we now listen to al-

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most equally strident voices which appear to confuse political wisdom with the latest statement from Washington.

My thesis here is a simple one. It is the proposition that from accumulated political thought and observation, political scientists have actually developed certain fundamental conceptions of government which stand above the stress and strain of current partisan strife. It is high time to make these conceptions articulate, to develop them in their full majesty, and to evaluate them by the test of experience.

At the outset it is well to enter an important qualification. There has long been confusion about the desirable objective of political knowledge. Some have contended that the basic purpose in the study of politics is to advance our understanding of man in political society. Others have insisted that the primary purpose of political knowledge is to enable man to control his political environment. Over seventy years ago (1883) in his lectures entitled *Dynamic Sociology*, Lester Frank Walker wrote:

> The function of the mind is, by using ideas, to put an end in human society to the blind operation of natural forces. By taking thought man can direct that energy expressed in human desires into socially beneficient channels. The mind can determine the goal to be achieved and the means by which it can be reached.

But at the same time William Graham Sumner was arguing that individual men are governed not by reason but by those basic customs which are called folkways. He insisted that these mores were not the product of reason, and that it was utopian to believe that reason could alter them. By and large, social psychologists both here and abroad have tended to embrace the position that social behavior is nonlogical. Thurman Arnold recast much of this argument in his witty and sometimes biting *Folklore of Capitalism*. Yet our fraternity of scholars generally repudiates the "gloomy conclusion" that impersonal, nonrational forces "beyond the control of men" govern social conduct. Instead, many insist that their purpose is to promote the goal of intelligent social action.

At the least I believe we might agree that ideas have always had a substantial impact upon events, and that this occurrence

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tends to be more evident today than in ages past. It makes no important difference to our concern here whether we seek knowledge for its intrinsic worth or its utilitarian application. It is enough that we seek knowledge.

I

The study of politics is the study of power exercised within the framework of the state. In psychological terms power is the capacity to influence the behavior of others. In legal terms power is the authority to exact a standard of conduct. In economic terms power is control over the allocation of resources and the distribution of material rewards. In institutional terms power is the determination of status. In social terms power is a possession for which men struggle. In political terms power is political action. All manifestations of power in society are not necessarily political. But the political manifestations of society involve the exercise of power.

The study of power is only one part of the study of politics. There is another equally important part. The study of politics, at least in Western society, is also the study of morals. There is a moral commitment in government. This lesson was emphasized by no less a master than Aristotle. In his familiar classification of governments Aristotle insisted upon a distinction between "true forms" and "perversions". The true forms were those in which the one, the few, or the many governed with a view to the common interest. It was not easy for the master-student to define this common interest. He had to resort to other general terms, such as "the good life" and "justice". All subsequent students have struggled with the same difficulty of definition. The Romans sought their answer in the law of nature. The Age of Faith had confidence in divine revelation, which in turn became corrupted into the divine right of kings. The right of revolution was the only counterweight; yet assassination as the means for tempering despotism was at best a reaction rather than a program. The utilitarians had one answer; Rousseau another; the Age of Reason propounded still another. None was adequate.

Today we would say that freedom is the moral commitment of government. Further than this, we have come to realize

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that freedom is not just an absence of restraint upon the individual. Freedom means equally the promotion of an environment in which the individual has an opportunity to exercise some degree of personal choice and to look forward with some degree of certainty to a stable or improved lot in society. Too often our discussions of freedom are one-sided. Some emphasize the element of restraint, or rather the limitation of the authority of government to restrain the individual. Others are apt to emphasize the positive obligation to advance social well-being for large numbers of persons without proper concern for the limitation of governmental authority. It is a balanced view of freedom which political science seeks to comprehend, and which our political art in practice seeks to promote.

Necessarily the individual person is central to any adequate conception of freedom. This basic proposition has been too often propounded to necessitate any elaboration here. No matter how we may endeavor to explain the place of the single personality in society, we must ever return to the fundamental idea embodied in phrases such as "the dignity of man", or "the worth of the individual".

Political power in society, we have learned, can be restrained only by some criterion of proper conduct. The task of ethics has been more than simply to establish norms to be observed in the relation of man to man. The greater challenge has been for ethics to provide a restraint upon political power. The task of government in a society with an ethical commitment has been to provide an institutional framework within which political power is restrained.

This last assertion deserves repetition. It is an ironic fact of our times that Russian communism has not only appropriated the ideal of freedom but has also completely perverted its meaning. The explanation for the success of this excursion into double-talk is not difficult to find. In a world where literally millions of people lack a stable prospect for the future, let alone any prospect for improved material well-being, it is no miraculous achievement to paint freedom in the colors of a promise of change. The promise is false simply because it is one-sided. The Communists pledge material improvement in a society of unrestrained political power. The pledge may not be redeemed.

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It may even be argued that such a pledge under the circumstances is not even redeemable. But whether material improvement follows or not, freedom is lost when power is rampant. This is the lesson of Western society. Freedom is also lost when material well-being declines. To make this double meaning of freedom clear beyond possibility of doubt is the greatest challenge of political leadership today, and an equal challenge to the political scientist.

The concern of students of government then is with the phenomenon of power as exercised through political institutions and as restrained by the moral commitment of our society. In this study there are certain primary questions which we seek to answer. One is: how and under what conditions did the political institutions of a society develop as we now know them? A second is: what are the basic characteristics of the political system of a society? A third is: how do men obtain and keep political power in society? There are other questions besides these three which can be asked, but most of them simply elaborate these basic issues.

II

Political scientists recognize two different conditioning factors in the development of our institutions of government, and in the growth of our operative ideals, as the late A. D. Lindsay termed them. One is tradition. The other is social adaptation.

Our government in the United States stands squarely in the great political tradition of the West. The essential elements of that tradition have been well presented for us both by Lindsay in *The Modern Democratic State* and by Frederick Watkins in *The Political Tradition of the West.* Both trace our heritage from Greek and Roman origins, through medieval feudalism and Catholic universalism, to modern secularization, the national state, the Reformation, parliamentary institutions, and industrialization. Throughout this history one or two themes predominate. One is the concept of freedom under law, eventuating in the present-day doctrine of liberal constitutionalism. Another theme is that of a distinction between community and state. To be sure, such a distinction was suggested by Aristotle himself, even though the Greek city-state had monolithic features. The difference between community and state has been em-

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phasized recently in particular by Robert M. MacIver in his *Web of Government*. Lindsay has put the proposition in these words: "The modern democratic state . . . implies among other things . . . that there are certain things which ought to be done in a society but not by the state." It is this distinction between community and government which is at the basis of our pluralistic social structure, a subject to which we shall return in a moment.

Tradition, we should hasten to add, is more than a matter of impersonal forces moving in a predetermined mechanistic pattern. Arnold J. Toynbee has given us a key phrase in his words, "the creative minority". There is no accounting in objective terms for the presence or absence of great leaders in a society. Our nation witnessed an amazing collection of outstanding persons in those crucial years from 1770 to 1790. The Civil War found us with a Lincoln, the opening of the twentieth century with an epitomization of the Bull Mooser in Theodore Roosevelt, and a catastrophic depression brought with it the ebullient spirit of a helpless but indomitable cripple. Creative minority and responsive majority were vital factors in the rise of civilizations, Toynbee tells us. But no historical scholarship, however profound, has yet given us the key to the mystery of how and why both appear when they do, or fail to appear at other critical crossroads in the destiny of man. The point is clear. History may not be the plaything of inspired or diabolical individuals, but individuals have a profound influence upon history.

The political institutions of a society are more, however, than the product of a long historical evolution. Tradition is vital in the life of every institution of man. But tradition is not the whole story. The political institutions of a nation are also indigenous to the land and the people where they operate. There is an interaction between environment and institutions, a kind of social ecology, which is not too often fully understood or appreciated by the student of government.

Frederick Jackson Turner propounded such a thesis in his emphasis upon the rôle of the frontier in American life. No doubt the thesis was somewhat limited in its scope, and exaggerated by its adherents. But Turner will long be remem-

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bered because he made us vividly aware of environmental factors in the development of social institutions. Toynbee has pictured environmental factors in monumental proportions in his *A Study of History*. Even in the realm of philosophy it has been generally agreed that pragmatism is a way of thought best expressing the climate of belief peculiar to the United States. Whether hailed as "an authentic expression of the dynamic idealism of the American way of life," or denounced as a "misleading and perverted justification of the worst elements in a business civilization," pragmatism is nonetheless indigenous.

An adequate portrayal of the peculiar conditions which have had their special impact upon American political institutions would require a review of the whole sweep of our history. Included would have to be such elements as the conquest of a virgin and richly endowed continent, the special character of American immigration, the peculiarities of industrialization and of what Charles Beard termed "the second industrial revolution", and the impact of great events such as the Revolutionary War, the Civil War, the First World War, the great Depression, and World War II. No one can hope to understand our government who does not first comprehend the social climate in which it operates.

It is ironic indeed that it should have been a former political scientist lately transformed into a political leader who should have authored the words: "a world safe for democracy". For, whether he so intended it or not, to American popular belief Woodrow Wilson's words meant that a world of democracies was the only kind of world safe for democracy. Experience has more than proved the disillusion of any such thought. A political scientist should be the first to point out that when political institutions are transferred from one culture to another, they quickly acquire the protective coloration of their new environment. Any resemblance between the original and the transplanted variety is likely to be purely coincidental. The United States drew heavily upon the political precedents of England. It is elementary political science today to observe major differences between parliamentary and presidential government, between unitary and federal governmental structure. Our Latin neighbors to the south may have found our

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constitution a convenient model to copy; the governmental product is startlingly different indeed. It is highly instructive too for the American to spend some time in the Philippines observing how the American Constitution was adapted in words to a nation fresh from colonialism, and even more how political practice quickly becomes peculiar to its own national situation.

Tradition, environment, and today the impact of culture upon culture—acculturation the anthropologists call it—these three forces make a nation's political institutions what they are. This is the first great lesson which the political scientist undertakes to demonstrate.

III

Our second quest is to understand the functioning structure of government at a given time and place. MacIver reminds us that society is a system of ordered relationships. The same definition may be applied to government. The common fault of political scientists has not been an inability to observe or describe these ordered relationships. Rather, we have been so engrossed by the details of our observations that we have failed to expound the unifying elements which compose the whole. The American structure of government is a relatively simple one, no matter how numerous or extensive may be its operating parts. The American system of government is one of limited power, and one of shared power. Both are expressions of our profound moral commitment to freedom.

Political power is limited formally and informally. Freedom under law, evidenced through an abiding faith in constitutionalism, has expressed itself by a formal promise of things which government shall not do. Our federal constitution foreswears such governmental acts as the passage of a bill of attainder, the taxation of exports, the granting of titles of nobility, the deprivation of life or property without due process of law, the expropriation of property without just compensation, the abridgment of freedom of speech, and the establishment of a state religion. Our state constitutions repeat much the same limitations, if anything in even more rigorous language. Ours is the amazing spectacle of a social compact which binds man in the exercise of his political power to refrain from particular acts and even more from

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particular modes of procedure. Obviously, it is not a "scrap of paper" which affords us these guarantees. The sanction of liberty is a social cohesion strong enough to insist against all petty demagogues that there is an acceptable standard of behavior and a forbidden realm of action.

Informally, political power has been limited by that concept of community to which we have already referred. Ours is not an all-competent government. Totalitarian government is by definition totally competent; it endeavors to regulate the sum total of social relationships. Freedom, we hold, cannot flower or survive in such an environment. Rather, we have reserved great areas of human activity for nongovernmental endeavor. By and large, our economy is nongovernmental. So is our religion. So are our professions. So are our mass media of communication. In considerable degree so are our agencies of higher education. To be sure, one out of eight persons in our labor force may now be a servant of government. It is still impressive, and we might add unique, that seven out of eight of our labor force do not work for government.

No one can deny that government now exercises a pervasive influence upon our everyday lives. From cradle to grave we encounter the long arm of government in myriad ways. Yet in a complex industrial society existing in a highly troubled world, it is nonetheless noteworthy to observe how many aspects of our everyday life government does not dominate. The political scientist who trumpets the importance of government as a means of emphasizing his own personal importance has ill-served his profession and his subject matter. We must ever be alert to the informal limitations of government, even as we are sensitive to the vital rôle of government in modern society.

But limited power is not the only attribute of our structure of government. Shared power is an equally essential characteristic. Power has been shared in our government by the institution of federalism, and by the arrangement for a separation of power. The intricacies of federalism in America are now well recorded in the series of papers presented in 1954 at one of the bicentennial conferences at Columbia University and happily edited by Arthur W. Macmahon, under the title *Federalism: Mature and Emergent.* A federal structure of

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government has its problems. This none can deny. But the political scientist recognizes as false the prophet who mourns the disappearance of our states as an important element in our system of government. Indeed, one political scientist led the way where an official commission of government recently trod in suggesting how our states can become even more effective partners in our system of shared power. Leonard White's little volume, *The States and the Nation*, expresses viewpoints widely accepted among students of government in this country.

The separation of power among legislative, executive, and judicial branches is perhaps the most unique single feature of American government. This shared arrangement is peculiar in its relative degree of separate identity which each branch has been able to achieve and maintain. Political leadership may have fallen in large measure to the chief executive, but it is a leadership weak in formal sanctions and strong in its command of public opinion. We have had alternating periods of legislative and executive domination in the formulation of public policy. This shared arrangement is peculiar too in its relationship to the bureaucracy. The administrative machinery of government is not primarily the creation or the instrument of the executive, no matter how much administrative reformers have spouted their patter about unity of command and efficiency of management. Here is one subject at least upon which the art of the bureaucrat has outdistanced the perception of the student. Any department head who thinks he can rely upon a chief executive for protection from the legislature will not long be a department head. Here is a truism which might give political scientists pause for reflection.

To the foreign observer the separation of power among legislative, executive, and judicial branches seems a sure guarantee of paralysis. Freedom may be served by hampering restrictive action ill-calculated to preserve a limited government, but has not the end been realized at the price of hampering any governmental action at all? Perhaps no aspect of American government is more intriguing than this. Our history is not the story of fiddling while Rome burns. The Republic has fought a great internal strife, and eight foreign wars of varied intensity. It has struggled through the settlement of a continent, the ex-

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ploitation of rich resources, the urbanization of its population, the relapse of its agrarian economy, and the contraction of productive output. Today, the threat of foreign aggression and the challenge of nuclear energy have failed in combination to overwhelm our arrangement of separated power. Perhaps the political scientist has nothing to contribute to this situation except his sense of wonderment, and an abiding faith that divine providence will continue to order it so.

The structure of American government is one of limited power and of shared power. This is the pattern of our political institutions. In this fashion we have sought to avoid that concentration of power or that collusion of interests which would be destructive of man's freedom.

IV

The third essential ingredient in our political system is the distribution of power. We have found it necessary in our study to differentiate between the institutions of government and the social arrangements for the exercise of political power. The first is the instrument through which the other operates. Yet the phenomenon of political power in our society is itself structured.

The democratic dogma proclaims that governments derive their just powers from the consent of the governed. A national plebiscite is the only mechanism man has been able to devise, however, which would enable the mass of people to speak politically. And for 100 years we have known that the plebiscite can be manipulated by tyrants as well as be utilized for occasional expressions of points of view prevailing in a democracy. Government of the people and by the people is not easy to organize.

The representative principle is an important element of democracy. If little known to the Greeks, the idea of representation was apparently developed independently by the Romans and by German tribes. It has a long history in the Western political tradition. Yet important as it unquestionably is, the representative concept still borders on the realm of political mechanics.

Our problem is the reality of political power. How does a

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man or group of men obtain power in our society; how do they maintain this power, and to what extent is this power subject to democratic restraint? These are the crucial issues to which the political scientist must of necessity address his attention.

One answer is to be found in the highly localized structure of political party operation. To be sure, the political party is the instrument through which representatives are offered for election and by which our "invisible government" is conducted. But the political party is so highly localized in the United States that it cannot serve as a unifying force in the determination of broad matters of national or even of state policy. From time to time political scientists have been induced to follow the "will-o'-the-wisp" of party reorganization. Perhaps our party structure in this country is entirely unsatisfactory, as an official committee of the American Political Science Association has declared. I am doubtful on this score. But I am certain indeed that no change in party structure should be advocated without a most careful consideration of the political values which inhere in our present localism. And as a political soothsayer I am equally certain that no overhaul of party structure is going to be made while the present arrangement continues to serve the operative ideals of our democratic government.

Suppose we accept the current definition of a national political party in the United States which the political scientist has formulated. A national political party is a loose confederation of forty-eight state parties which comes together every four years for the sole purpose of electing a president; this objective realized, the national party immediately disbands and leaves the president alone to fight his own battles. We may accept this definition without necessarily concluding that the arrangement is wrong. Wrong by what standards of judgment? Certainly the criticisms voiced thus far do not make a convincing case, if freedom is one of the commitments of American government.

A second answer to the question of how political power operates is the narrow gulf which separates a Republican from a Democrat. Do these designations have any meaning except as labels assumed by individuals in a particular place at a particular time for purely local reasons? Arthur Macmahon expressed the

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major observation of the political scientist about party battles in the United States in his presidential address to the American Political Science Association in December 1947. He pointed out that a society which was evolutionary in mood and method was not likely to make substantial changes in public policy at any one time. He declared that the "outstanding fact" of our society is the "consistency of cumulative policy". Shifts in the party control of our government might be ruinous today in an economy so geared to governmental influence. Macmahon then pointed out that our electoral campaigns are more concerned with tempo than with trend. The consistency of American public-policy development is a major theme for the political scientist.

If party designations reflect few basic conflicts in the dynamics of political power, is there a greater cleavage between actual political points of view? Russell Kirk in his *Conservative Mind* suggests a considerable difference in purpose and method between the conservative and the radical in our society. He refers to the conservative's belief in divine intent, the conservative's affection for the variety and mystery of traditional life, the conservative's conviction that society requires order and classes, the conservative's persuasion that property and freedom are inseparably connected, the conservative's faith in prescription and his distrust of planners, and the conservative's recognition that change and reform are not identical. Opposed to this outlook Kirk poses the radical's belief in the perfectibility of man, the radical's doctrine of illimitable progress, the radical's contempt for tradition, and the radical's desire for political and economic leveling.

Perhaps the dichotomy between conservative and radical is as clear-cut and concise as Kirk suggests. If this be true, then I for one am convinced that there are few radicals in American society, or at least in American political life. For this reason we may well prefer the label "liberal" to that of "radical". If we use the milder expression to differentiate the climate of political opinion and debate in our country, then it seems to me the true situation is more adequately presented in Clinton Rossiter's recent volume, *Conservatism in America*. Rossiter declares:

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> The essential difference between conservatism and liberalism is one of mood and bias. No line separates one camp from the other, but somewhere between them stands a man who is at once the most liberal of the conservatives and most conservative of the liberals. In genuine liberals there is a strain of conservatism, in genuine conservatives a strain of liberalism.

It is this absence of sharp cleavage between parties and between political philosophies which is an essential element of our struggle for power. If our political contests were life and death struggles, our republic could not survive, any more than did the Roman republic or the Italian city republics of the fifteenth and sixteenth centuries.

No one can deny the class structure of our society, just as there is class structure in all ordered social relationships. But two conditions are essential to a free society. One is that there be mobility between social classes. The other is that class divisions not be so intense that, in the words of Lindsay, "the state cannot fulfill its function." Lindsay uses another expression which should equally command our attention: "A democratic society is a society of equals who are different."

The social basis of our democratic practice of political power is twofold. First, there is the practice of free association. The individual must find his personal fulfillment within social groupings. Only the hermit and the recluse are relieved of this necessity. That individual is free who is able to exercise some choice in selecting and changing his group affiliations. With this principle of voluntary association goes the concomitant of willing acquiescence in the diversity of association and the diversity of opinions. These very conditions necessitate some degree of common culture for the democratic state.

The other fundamental basis for our democratic political practice is the free struggle for political power among competing groups. Interestingly enough, it is an economist, J. K. Galbraith, in his *American Capitalism: The Concept of Countervailing Power*, who has contributed one of the notable recent discussions of this subject. Yet the idea underlying this concept is not new to political scientists. The group basis of politics was set forth by Arthur F. Bentley as early as 1908 in his *The Process of Government*, perhaps the greatest single contribution of an

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American to political thought. Bentley has been revised and brought up to date by David B. Truman.

Pluralism of social structure is the framework in which the struggle for political power is carried on in our country. The politician obtains power by the success of his effort to construct a working majority among competing groups. He retains power while he succeeds in developing a public policy which expresses consensus among substantial and influential groups. He loses power when dissension takes the place of consensus. This is an elementary and unqualified exposition of our political process. In its essentials, however, it expresses truths upon which the political scientists are agreed.

V

Nothing said here is intended to suggest that political scientists know all there is to know about the art of government. They do know a great deal. The full extent of their knowledge is often concealed, however, by their inability to express their concepts clearly. Their knowledge has been concealed, too, by their reluctance to formulate those "interconnecting groups of concepts and conceptual schemes" which arise from their observation—those groups of concepts and conceptual schemes which James B. Conant declares to be the essence of science. Certainly there is no progress for political scientists in the sterility of an esoteric semantics. But modesty should not deter them from being articulate about the concepts which provide the unifying whole of their knowledge about government.

To Aristotle politics was the master science. It was the culmination of his orderly and comprehensive system of thought. Even today the art of government represents one of man's supreme achievements, and his greatest, never-ending challenge. Political scientists cultivate an abundant and rewarding vineyard. They must never let it be said that they are poor husbandmen.

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ECONOMIC PLANNING IN A CAPITALIST SOCIETY: FRANCE FROM MONNET TO HIRSH

IN recent years national economic planning has attained the dubious distinction of being what the French call a *mystique*. In the popular mind it has become a kind of panacea by which the economic sufferings of man may be relieved, or at least may be made bearable, by furnishing hopes of better times. It has practically supplanted Marxist doctrine in the work-a-day political platforms of socialist parties; it has been accepted by business executives, both capitalist and Communist, as the sure way of utilizing resources more effectively; it is the darling of statesmen in economically underdeveloped areas who desire economic growth for their people; and it is foisted on the *have nots* by rich nations, that give foreign economic aid, as a *sine qua non* of their bounty.

In recent times economic planning has been given a fillip by socialism, wars, depressions, and a desire for economic growth. At the beginning of the twentieth century socialist parties and socialist trade unions clamored for planning as a necessary concomitant of, if not a temporary substitute for, the nationalization of the means of production. During World War I, planning was adopted as a means of self-preservation; after the war it was advocated in capitalist countries to hasten recovery, and in communist societies to make capitalism appear to be a living lie. Planning was revitalized by the depression of the 1930's; it was strengthened during World War II; and it came into full flower in the immediate aftermath of that great conflagration.

In France, the modern version of national economic planning was preached with vigor after World War I by the *Confédération Générale du Travail* and by the Socialist party. Indeed, the Socialists were largely instrumental in bringing into being the first agencies for providing some semblance of planning: the National Economic Council, which was created when the *Cartel des Gauches* was in power, and the Ministry of National Economy, which was brought into being when the Popular Front was at

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the helm.[1] Gradually, however, many other political groups came to support the idea of planning, for the inadequacies of piecemeal national economic policies and the threat of war from a nation with an acknowledged superior economic potential made it clear that France would have to direct her resources to generally agreed upon goals if she were to hold her position in the family of nations—if, indeed, she were to survive at all as an independent state.

Because of the general favor accorded economic planning in France, it is not to be wondered at that during the late war the National Council of Resistance, composed as it was of representatives of many political persuasions, made a strong plea that economic planning be given top priority in the new, liberated France.[2] Nor, in retrospect, is it strange that while economic planning was being demanded by the Council of Resistance, it was being practiced by the Committee of National Liberation in North Africa. In fact, in April 1944 an Economic Committee, having General de Gaulle as its presiding officer and Hervé Alphand, a young functionary of the Ministry of Finance, as its general secretary, was established at Algiers in order that the best possible use might be made of the meager stocks of goods, that reasonable requests could be made, via the Allied North Africa Economic Board and the Combined Civil Affairs Committee in Washington, for American aid, and that schedules of needs might be drawn up for Allied study and implementation once France was liberated.

When France was freed, this Economic Committee was brought to Metropolitan France, where Resistance leaders welcomed it with open arms. At that time the need for eco-

[1] The National Economic Council dates from a decree of January 16, 1925. This body is composed of representatives of various interest groups, such as employers, employees, consumers and technicians. It has made several studies of the French economy for the guidance of the Chamber of Deputies.

The Ministry of National Economy was established in 1938. It had little opportunity to "plan" before it was swallowed in the holocaust of war and foreign occupation. See "Les plans français d'équipement", *Notes documentaires et études*, No. 267, Paris, March 22, 1946.

[2] Henri Michel and Boris Mirkine-Guetzévitch, *Les idées politiques et sociales de la Résistance* (Paris, 1954), chapter xiv.

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nomic action was more urgent than ever, for France had been milked dry. Her inventories were hopelessly depleted; her transportation system was demolished; many of her foreign investments had been liquidated to pay for much-needed imports; and her productive equipment, already lamentably antiquated before the war, was now absolutely inadequate to meet national needs or foreign competition. Indeed, the French War Damage Commission estimated that the total cost of the war and occupation was equal to 45 per cent of France's entire national wealth.

It was in this context that General de Gaulle, then head of the French Provisional Government, appointed a Commissioner General of Planning[3] and instructed him to draft a plan of action.[4] The new appointee was Jean Monnet, who had been with De Gaulle in North Africa in charge of getting necessary supplies for the country.[5] Monnet was a native of Cognac, where he had been born in 1888, appropriately enough into a family that distilled the brandy that has made this region of France famous throughout the world. Jean entered the family business and was sent to Canada to sell its wares. There he made friends in high places, who subsequently stood him in good stead. In fact, during World War I, when he was employed by the Ministry of Commerce,[6] he was able through his earlier contacts to negotiate a loan of 100,000,000 gold francs with the Hudsons' Bay Company in order to buy Canadian wheat.[7] This coup brought Monnet considerable prestige, and

[3] December 21, 1945.

[4] January 3, 1946.

[5] It should be remembered that Pierre Mendès-France, the first Minister of National Economy toward the end of the war, had an elaborate plan for economic recovery. It involved severe measures, including wage and price stabilization, heavy taxation of illicit profits, and the mobilization of French resources to speed recovery. De Gaulle did not approve of these steps, and Mendès-France resigned in April 1945. He was replaced by the urbane and easy-going René Pléven.

[6] Monnet was exempted from military service because of physical disability.

[7] Incidentally, the Hudsons' Bay Company made as one of its conditions for the loan that all of France's wartime purchases in Canada be made through it as agent.

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the prestige resulted in his being appointed to the Allied Maritime Transport Council, which was the key organization in Allied economic coöperation. After the conflict, Monnet worked briefly for the League of Nations, and then, from 1923 to 1926, managed his family's brandy business. In 1926 he became associated with an American investment bank, but in 1932 left it in order to undertake the task of liquidating the affairs of the great Kreuger and Toll match combine. He surrendered this assignment, in turn, when he had an opportunity to go to China to prepare a plan for industrial investments and to reorganize the Chinese railway sysytem.

When a new European conflagration seemed imminent, the French government invited Monnet to take charge of placing French orders for war material in the United States (1938); then in September 1939 the French and the British governments named him head of the Committee of Coordination of the Allied War Effort. Upon the invasion of France, Monnet joined Churchill in an effort to unite the English and French nations; after the defeat of France, he worked in America on various "combined boards"; and, following the American attack on North Africa, he became Commissioner of Provisions, Armaments, and Reconstruction to make plans for Lend-Lease and other aid. It was from North Africa that he returned to France in the entourage of General de Gaulle.

From this wide and varied experience, Monnet brought to the task of national economic planning business competence, an ability to sell his product, a canny eye for selecting talented collaborators, and a genius for securing the enthusiastic support of his aides. His merits were at once made evident by the way in which he created an organization for planning. He kept his immediate staff *au Plan* small for reasons of both economy and efficiency (it was not to exceed thirty-eight)—a step that set him far apart from the usual bureaucratic empire builders. This small group was possible because the Planning Commission was envisaged as a high-level body that would coördinate the work of existing economic agencies both inside and outside the government and not as a new agency which would compete for power and prestige with those bureaus which were concerned with the details of economic life. Monnet obtained the collabo-

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ration of the most powerful political authorities in the country by having an Executive Council composed of cabinet ministers and eighteen other persons representing such governmental bodies as the *Conseil d'Etat* and such private groups as the *Confédération Générale du Travail*, the *Confédération du Patronat Français*, and the like. He got the support of most of the business elements of the nation by establishing eighteen commissions composed of business men, technical experts, government economists, and other interested persons. These commissions represented the following sectors of the economy—coal, electricity, iron and steel, domestic transportation, petroleum, labor, rural equipment, field crops, animal husbandry, agricultural machinery, building materials, public works and private construction, machine tools, automobiles, textiles, cinema, consumer and social modernization, and overseas territories. Specific plans were to be formulated by the commissions, brought into harmony by the technical staff, and carried out in the name of and with the authority of the Executive Council.

As can readily be imagined, this kind of organizational structure ran the risk of providing special interest groups with opportunities to attain positions of power which they might use in their own behalf instead of in the general welfare—with opportunities, in short, for politics rather than planning. Monnet believed, however, that pressure groups would be operative no matter what the organization for planning was and that they could be better contained and restrained if they were within the planning hierarchy than if they were entirely out of it.[8]

By the end of 1946, France's planning body released its first four year plan—a plan that had been prepared by the collaboration of over a thousand persons working in commissions and by the coördinating efforts of the small technical staff *au Plan*.[9]

[8] Some of the commissions had sub-commissions, of which there were seventy-four. Thus the Commission on Domestic Transportation had under its jurisdiction sub-commissions on rail, air, highway, and inland waterway transportation. Perhaps attention should be called to the fact that the Committee on Economic Development, a private planning group created in the United States during World War II, followed much the same organizational principles as did *le Plan* in France.

[9] *Rapport général sur le premier plan de modernisation et d'équipement*, November 1946, p. 5.

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The three main features of this document were that: (1) it set production goals for each major sector of the economy; (2) it advocated the development first of *six activités de base*—coal mining, electrical production and transmission, ferrous metals, cement, agricultural machinery, and domestic transportation—on the grounds that the prior expansion of consumer goods industries would be stymied by shortages of basic materials; and (3) it specified what amounts of savings and investment, labor, and material resources would be necessary to realize the plan in the time allotted to it.

As was to have been expected, *le Plan* as presented to the public in 1946 was the object of a considerable amount of criticism. There were those who thought that resources should have been poured into those parts of the economy in which France had comparative advantages rather than into the *six activités de base*. There were others who believed that more attention should have been given to social aspects of recovery and development, including a large housing program. And there were those who were of the opinion that *le Plan* could not be carried to completion because of the state's inability in a free society to exercise the amount of authority necessary to make individuals sacrifice present pleasures for future benefits.

Of all of these doubts regarding the nature of the Plan, the last seemed to be the most valid. Yet French governmental planners were by no means powerless to put pressures on people so that they would act as desired. The planners had the weapon of propaganda and they used it very adroitly by preaching that material improvements in France could come only through higher productivity per operative and that higher productivity depended upon savings and investments in capital goods, upon better machines, upon better organization of work, and upon a fuller utilization of national energies. Furthermore, they had the active collaboration of those leaders in business and in government who sat on the eighteen planning commissions or on the seventy-four sub-commissions, for it was inconceivable even in France that those who drafted the Plan should not contribute to its success.

Then, too, the planners could exert certain pressures on the

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economy by the use of direct controls. Some of these devices were of a relatively secondary and transitory character, as, for example, the allocation of scarce materials, like coal, only to those who complied with the directives of the Plan. Similarly, the granting of building permits, import licenses, and the right to use foreign credits could be employed to get entrepreneurs to abide by the dictates of the planners of La Rue Martignac. But such powers were as nothing compared to the state's ability to direct bank credit into desired channels, to acquire moneys by borrowing or by gifts, to force people to save, and to make investments in those parts of the economy that the planners believed should be developed most rapidly.

As time went on, the importance of savings and investments to the success of the Plan became ever more evident. At first, attention had to be given to fighting inflation, for with the rise of prices people with liquid funds tended to buy consumers' goods—a propensity that militated against savings and thus against investments. This fight was directed by a supreme National Credit Council,[10] in which the planners had some voice, and was executed principally by the Bank of France, the great commercial banks, which had been nationalized, and by all the great fiduciary institutions, many of which, like the insurance companies, had to invest a proportion of their portfolios in government securities. By 1948 rapid inflation was brought under control, and an almost complete stabilization of prices was attained in 1952. Concomitantly savings and investments increased markedly, being about 50 per cent more in 1951 than they had been in 1938.[11] Yet at the latter date, France's savings and investments represented only about 17 per cent of gross national product, while in the United States savings and investments represented over 21 per cent of gross national product.[12]

[10] Created by a law of December 2, 1945.

[11] The Monnet planners used 1938 as their base pre-war year for all post-war comparisons. Commissariat Général, *Cinq ans d'exécution du plan de modernisation et d'équipement de l'Union française* (*Réalisations 1947–1951 et programme 1952*) (Paris, 1952), p. 6.

[12] United Nations, *Economic Survey of Europe since the War* (Geneva, 1953), p. 56.

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TABLE I

SOURCE OF FUNDS INVESTED

(in percentages)

	1947–1951		1954
	Nationalized Companies	*Private*	*All Companies*
Autofinancing (plowing back of profits)	12.8	44.2	38.7
Issues of Securities	8.3	7.3	16.5
Modernization & Equipment Fund[a]	69.0	24.8	30.9
Advances from the Treasury[b]	1.9	2.6	—
Budget[c]	—	8.8	6.0
Banks and Special	8.0	12.3	2.1
War Damages	—	—	5.8

[a] Modernization and Equipment Fund, 1948–1951
(in billion of francs at prices at the end of 1951)

Counterpart Fund	750
Treasury loans	696
Other	114

[b] For agriculture, North Africa, and colonies.

[c] Sums allocated to agriculture, oil-well drilling, and to the Investment Fund for Economic and Social Development (FIDES).

Another important aspect of savings and investments in France during the years in question was that a large proportion of savings was effected by the state and a high percentage of investments was made by public authorities, as can be seen from Table I. In part, this is to be explained by the fact that three of the *six activités de base* had been nationalized and therefore naturally went to the government for funds, but it is to be accounted for also by the fact that the state was an effective "saver" and, once in control of funds, determined how they should be used. In the period from 1947 to 1951, 1,436.5 billion francs at 1951 prices were invested in nationalized industries, while 2,340.6 billions were invested in private or mixed enterprises (see Table II); or, put in another way, 38 per cent of all French investments in these years went into nationalized businesses. Furthermore, well over 30 per cent of all investments came from government sources; a preponderant part of them came from the Modernization and Equipment Fund; and from 1948 to 1951, inclusive, more than half of the moneys in

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TABLE II

DISTRIBUTION OF INVESTMENTS
1947–1951
(billions of francs at prices of the end of 1951)

Nationalized Industries		
Coal	457.6	
Electricity	700.5	
SNCF	182.5	
Air France	48.	
Gaz de France	47.9	
		1,436.5
Private or Mixed Companies		
Cie Nationale du Rhone	110.3	
Metallurgy	265.3	
Petroleum	163.	
Other Industry	355.8	
Agriculture	665.	
Internal Maritime Shipping	21.2	
North Africa Overseas Dept.	760.	
		2,340.6
Grand Total		3,777.1

Source: *Cinq ans d'exécution du plan*, p. 320.

this Fund came from the Counterpart Funds of the Marshall Plan and most of the rest from Treasury loans.[13]

In spite of all the increases in savings and investments, in spite of American aid, and in spite of propaganda for greater *productivité*, only one of the original targets of the Plan had been hit by the end of 1950—that for petroleum refining—and most of them had been missed by very wide margins. So far off were accomplishments in most industries that in 1949 new goals were set for attainment in 1952–53, which were only a little higher than the original ones. In other words the first plan was extended by two years.[14]

The explanations given for the failure of France to realize the production levels prescribed for her in 1946 were many and

[13] *Cinq ans d'exécution du plan*, p. 328.

[14] UN, *Economic Survey of Europe since the War*, p. 80.

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varied. The most convincing reason advanced for the relatively poor showing was that France had had such large and unexpected expenditures in Indochina and had had to spend so much more on her military establishment than had been expected because of her commitments in the face of the evolving European situation that she had not had sufficient funds for economic development.[15] Furthermore, as experts pointed out, some of the difficulty arose from the fact that the French spent an inordinate amount on *joie de vivre*, invested too much in small family businesses in order more easily to evade taxes, and failed to establish those good relations between capital and labor which are necessary for high productivity per operative. Finally, there were those who thought that the original estimates were simply too high; others who explained that the emphasis on the *six activités de base* of necessity tended to delay the making of a good showing; and still others who attributed the trouble to an excessive amount of governmental intervention in the economy of the nation. However pessimistic was the attitude which one took toward the situation, some comfort could be found in the fact that France did register considerable economic growth from 1946 to 1950. By the latter date French national income was at 111.1 (1938 = 100) and in 1951 surpassed the previous high point—that of 1929—while industrial production reached 123 in 1950. Indeed, progress was great enough so that planners could claim that their efforts had been successful—or at least successful enough to counteract the claims of their detractors.

Whether one regarded the Monnet Plan as a success or a failure, however, a time was bound to come when the Plan had to be completely rethought in the light of changed economic conditions and of new needs of the country. The propitious moment for such a reconsideration came at the end of 1952 when Jean Monnet resigned from *le Plan* to assume the direction of the European Coal and Steel Community, which he had done so much to organize. Also, by this date, it was clear that other sectors of the economy than the *six activités de base* needed more attention than they had been getting and that there were depressed regions within the country that should be helped.

[15] *Ibid.*

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Lastly, by this time the ending of Marshall Plan aid, the cessation of inflation, and large military expenditures meant that new thought had to be given to changes in the matter of financing economic growth.

Leadership in the reconsideration of planning in France was to be provided by the new secretary of *le Plan*, Etienne Hirsh, a much less colorful and dynamic person than his predecessor and one who was unable to stir the imagination of the French as Monnet had done. Hirsh brought to his task, however, considerable competence and successful business experience. He had served with distinction in France's great Kuhlmann chemical combine; he had been in charge of armaments for the Committee of National Liberation in North Africa; and he had served well as Vice-Director of the Plan under Monnet. During 1953 he guided the hammering into shape of a new plan that was put into operation in 1954.

Although Hirsh maintained the basic organization of the Commissariat which had been established in 1946, he retouched it to a certain extent. To the original eighteen Commissions, he added new Commissions for scientific and technical research, commerce, the press, the equipment of schools and universities, the tourist trade, and on depressed areas, such as the Lower Rhone, Lanquedoc, the Southwest, and Corsica. Following Monnet's procedure, he charged these commissions with the task of drawing up plans, and the planning staff with the job of bringing the separate blueprints into a harmonious whole.

The Hirsh Plan, which was devised to cover the period 1954–1957, envisaged an increase of 25 per cent in national income over that of 1952. This was to be achieved by a 20 per cent increase in agricultural production, a 25 to 30 per cent increase in industrial production, and a 60 per cent increase in building. Emphasis was taken off the *six activités de base* and was put on agriculture, light industries, housing, economically backward areas within France, the colonies, and foreign trade. The character of the new plan is shown by the schedule of planned investments in Table III.

Furthermore, the Hirsh Plan envisaged important changes in financing economic growth. It was hoped that in the long

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TABLE III

INVESTMENTS BY SECTOR OF THE ECONOMY, 1954
(in billions of francs, current value)

Metropolitan France		*France Overseas*	
Coal	80.3	Algeria	83.3
Electricity	109.4	Tunisia	19.2
Gas	26.9	Morocco	57.4
National Co. of Rhone	8.2	Territories	56.3
Liquid fuels	50.	Other overseas depts.	6.
Atomic energy	6.8		
SNCF	39.4		
Roadway works of art	6.1		
Roads	24.7		
Internal waterways	2.2		
Barges	.8		
Parisian transport	4.2		
Other urban transport	2.3		
Ports	13.3		
Merchant marine	61.		
Airports	7.		
Air France	9.		
P.T.T	41.8		
Tourism	7.		
Agriculture	169.8		
Metallurgy	48.		
Iron mines	7.6		
Chemicals	64.		
Machine tool	84.		
Textiles and others	51.		
Non-ferrous metals	2.8		
Cement	4.5		
Housing	540.		
School equipment	71.		
Hospitals	4.9		

run a larger proportion of investments would come from private than from governmental sources; for excessive government borrowing, it was feared, might impair the credit of the state and lead to a new inflation. Secondly, it was expected that much government aid would be employed in guaranteeing the security issues of nationalized industries. Thirdly, efforts were made to effect a "debudgetization" of investments, that is, of getting commitments for funds for longer periods than those contained in the annual budgets of the state, so that plans of several years' duration might be entered upon without

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fear of curtailment because of a temporarily hostile *Assemblée Nationale.* Fourthly, the *Fonds de Construction, d'Equipement Rural, et d'Expansion Economique,* which took the place of the *Fonds de Modernisation et d'Equipement,* was to make loans to private and public enterprise and to guide the new investment policies.[16]

In 1954, as can be seen from Table I, some changes in the sources of investments were realized. Securities came to assume a larger place in providing funds;[17] bank loans of medium length fell off; and there was an increase in the amount of self-financing. There was not, however, any marked reduction in the investment of public funds.[18]

In order to encourage private saving and investment all manner of tax gadgeteering has been engaged in which may pay off in time. Thus a percentage of one's income is exempt from the *progressive surtaxe* if it is invested;[19] amounts used for paying life insurance premiums are similarly deductible from the same tax; the substitution of a tax on value added by processing for the old tax on production, which in turn was much like the *chiffre d'affaires* tax, has done away with one form of multiple taxation and may encourage risk capital to be more active;[20] and companies which invested their profits in bonds were given a tax exemption on sums thus placed.[21] To encourage investment, extremely favorable rules were adopted for the formation of joint stock companies and for increasing their capitalization; special tax concessions were granted companies which were drilling for petroleum or investing in underdeveloped regions; and steps were taken to reduce interest rates and to lighten the security requirements of banks.

[16] Commissariat au Plan, *Rapport annuel* (Paris, 1954), p. 28.

[17] These public moneys were provided in large part by special state institutions, like the *Caisse des Dépôts et de Consignations,* the *Crédit Foncier,* and the *Crédit National.*

[18] *Rapport annuel* (1955), p. 20.

[19] Law of April 10, 1954 and decree of December 3, 1954.

[20] *Rapport annuel* (1955), p. 43.

[21] Decree of May 20, 1955.

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Just what the effect of such measures[22] will be, it is too soon to say. In one sense there is real urgency in their being effective; for French national income is only a little over what it was in 1929, while British and German national incomes are up by some 50 per cent over the previous date.[23] The situation in which France finds herself, so far as her economic problems are concerned, was well described by Monnet in his valedictory report:

> Substantial as has been the progress which has been realized, we should not be satisfied with it. In the presence of higher taxes resulting from the necessity of defense, in view of greater international competition and of the possibility of there being a European customs union, and in a world in constant evolution, the only way to face up to the new situation without a reduction in the standard of living is to continue to increase production and productivity. Such increases are possible with the resources which are now at our disposal by a more rational and complete utilization of our human and material means.
>
> "Modernization or decadence"; that was our dilemma six years ago; it is our dilemma today; and it will always be our dilemma. Decadence is always something that threatens those who relax and modernization is not something that can be given one push and be abandoned to run under its own momentum. Our slogan was simply a way of expressing the eternal need for adaptation that is required of each individual, of each business concern, and of each nation.[24]

Planning is not and never should be considered a panacea to cure all ills. At best, it can only indicate what must be done if certain results are to be obtained. France needs, and has long needed, sustained economic effort if she is to enjoy a strong position economically, politically, and militarily in the family of nations.

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[22] It should be added that other steps have been taken which may have some effect on the situation. These include investments in research, the retraining of workers, the encouragement of competition, and the expansion of housing.

[23] *Rapport annuel* (1954), p. 5.

[24] *Cinq ans d'exécution du plan*, p. vii.

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"POWER POLITICS" VERSUS "POLITICAL ECOLOGY"

IN the fields of science and technology, far removed from politics, we know that both theory and technical results progress through a mutual interdependence on one another. On the one hand, theories have in the past constantly been tested against and modified by knowledge of new facts, and the awareness of facts has been the fertile ground and origin of new points of departure in thought. On the other hand, the development of physics, chemistry and mathematics shows that the most abstract theories have preceded technical developments and become the most dependable means of influencing concrete fact.

The principle has been well recognized that from time to time the structure of theory should be critically revised so as to comport more and more closely with the character of experienced fact. The usefulness of theories depends on the scope of the facts to which they refer and on the extent to which the facts they omit may be practically neglected. Therefore, theories become trivial or irrelevant when new, dominant facts appear which they fail to take into account. However logical or coherent in itself a theory may be, it cannot attain predictive value if it does not meet the test of adequacy, that is, the ability to explain the relevant and dominant facts of experience.

Political theories are by nature abstract. Therefore, it is not sufficient that they should express generalizations drawn from a limited field of concrete experience. Our political theories (upon which our policies are based) should exhibit a structure which recognizes the broad relevant background of physical, geographical, technological, sociological and cultural facts known at a given time and place, in exactly the same manner as our scientific theories should refer to the whole relevant background at a given time and place of physico-chemical, organic and other pertinent facts.

In a changing world new values in politics can arise only when old abstractions are superseded and clearer apprehension

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of the relevant relationships of actual experience is obtained. There is every reason to believe that the departmentalization and overspecialized abstraction in politics, economics and related fields constitute a basic reason for the present contrast between the technical achievements of our society and its moral-political accomplishments.

There exist today a large number of highly abstract political formulations which are accepted as a matter of habit but seldom judged by their ability to account for and predict events of the current world situation. One such principle in vogue in our country I will subsequently term "the primary political assumption". That is the principle, implied by most contemporary writers and commentators, that American foreign policy in the last fifty years has been and is to insure that no single political Power achieves dominance in Europe or the Far East. According to such writers, the dominance of a single Power in Europe or the Far East would inevitably lead to the crumbling of our international ties, to our isolation from the rest of the world, and ultimately to the overthrow of our present way of life in the United States.

This view is clearly a twentieth-century version of nineteenth-century British balance-of-power politics on the continent of Europe. By definition power politics, in order to insure its diplomatic objectives, must be ultimately backed up at its point of application by superior military force. Under present conditions, Europe and the Far East are known to be theatres of power-political conflict in which, for some years, there has existed a stalemate: unless a radical departure occurs from past political viewpoints, this stalemate cannot be broken by methods short of war. Beneath the surface of current political formulations there are structural reasons why this stalemate implies economic disruption, political misunderstanding, and the continuance of the world armaments race on the present scale, which seems to be absorbing all of the energies of the Western countries not directly required for survival.

This article is intended as a criticism of the primary political assumption in the light of underlying principles. Since space is short there is room only to discuss the bearing on the primary

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assumption of certain inescapable present-day facts drawn from geography, economics and modern technology.

In the twentieth century we know that all military and institutional structures require industrial economic power to support them. Economic power is the goal of all nations of the world and is accepted even by military leaders as a real quantitative measure of world political and military influence. There exist today two indubitable economic conditions of the power of the United States. First, the presence of extensive sources of raw materials, with balanced supplies of food, oil, coal, iron ore, and so on within the continental region of North America, comprises a condition without which United States world power, not to mention military expenditures and foreign aid, would not exist. Our history further demonstrates that the freedom for individuals and groups to exploit these resources for their own profit has developed a degree of wealth unknown to any other country previously. It is not necessary to evaluate here the contribution of other social, institutional and human factors to United States economic power. These other factors are indeed extremely relevant to the creation of economic power. But here we are only concerned with the fact of economic power and, more particularly, with the fact that without our political and economic unity in the United States our standard of living would sharply decline and the military and political power abroad which results from economic strength at home would cease to exist. With a change in these power relationships, our political, economic and military possibilities and, accordingly, our ideas and policies would change correspondingly. As an example, it is clearly possible that if the United States were divided into several parts, one or more of these might attempt military aggression against the rest. That this statement is borne out by historical fact becomes apparent when one examines the origins of the Civil War, the attitudes of the North toward secession of the Southern states, and the Northern justification for military aggression on the principle of indissoluble union, political and economic.

Because of the evident importance of industrial economic power, it is worth while to generalize briefly the history of the

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"industrial revolution", and to ask to what extent economic forces may have affected political and military questions.

First of all, investigation reveals that economic power has arisen, not through any superimposed, deterministic law of nature, but by the interplay of the challenge of the physical and human environment on the one hand, and the responsive growth of ideas and inventions, and the cumulative working out of human ambitions and potentialities, on the other. This has resulted in the slow growth of commercial, industrial, institutional, social and political structures, all of which create economic power. The industrial revolution first came to England around 1750 as the result of intellectual and inventive ferments in Western Europe prior to that time. These ferments led to the development of large commercial and industrial organizations in England, forming the base of England's world-wide economic power. The willingness with which "colonial" peoples bought English goods clearly shows that the British Empire was not constructed by military force primarily. The industrial revolution which dominated the expansion of the British Empire by 1750 became a primary factor in developing the economy of the United States by 1830. It reached Germany around 1850 and Russia and Japan around 1900.

It is clear that the processes of creation of economic power and wealth tend to operate in exemplification of the law of conservation of energy. George Kingsley Zipf has given figures illustrating the applicability of the law of conservation of energy in determining the urban population distribution of the large industrial nations. He has shown that, when groups and individuals living in industrial societies direct their activities toward maximum profit, these activities tend to order the distribution of population and physical plant in such a manner that transportation distances of materials and human beings become minimized. For instance, in the United States the movement of iron ore from the Lake Superior region and of suitable coal from West Virginia, Kentucky and Pennsylvania has been a determining influence not only on the location and types of manufacturing throughout the Pittsburgh-Cleveland-Chicago region but, if the writer correctly interprets Zipf, on the

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relative populations of Cleveland, Pittsburgh, Detroit, Chicago and other cities. In view of these considerations, maximum profit clearly presupposes insured access to all basic raw materials required for any given stage of industrial development. These raw materials today include foodstuffs, coal, oil, metallic ores, and so on, and their balanced supply is necessary in order for a nation or population to achieve economic power in our era.

Certain large regions of the world show a natural balance in that they contain within their boundaries most of the raw-material requirements of an industrial economy integrated according to prevailing technique. Whether consciously or unconsciously, the peoples of these regions work in such a way that the result of their efforts is to increase the conservation of energy, that is, to diminish the movement of goods and raw materials. The most important regions today for our purpose are:

A. The United States, Canada, Central America, and at the present time the northern fringe of South America. This region is the one which has come closest to achieving politico-economic integration.

B. Europe, the Middle East, the North African coast, Western Russia, as far east as the Urals.[1] This was and still is the most important world region from a politico-economic viewpoint.

C. Eastern and Southeastern Asia, including China and Manchuria.

D. Argentina, Uruguay, Paraguay, Bolivia.

There are other countries, such as England, Australia, India, which face the oceans and depend to a far greater extent than other nations on deep water transportation to fulfill their economic needs. Largely because of their geographical position, and in some cases because of the condition of their industrial techniques, they cannot be classified as a part of any particular economic region in the present period of technical development. They strive to maintain a natural balance of trade with several of regions A, B, C, and D, without being geographically contiguous with them.

[1] The importance of the fact that Russia belongs to both groups B and C has been emphasized by many other writers.

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It follows from the law of energy conservation that any people can bring to bear only a certain strictly limited amount of organized energy upon a goal. Modern biological, linguistic and sociological investigations tell us that the practice of war is not instinctual in itself, but it is a form in which instinctive tendencies frequently manifest themselves. The character of this manifestation is socially determined. If the energy of the aggressive and combative human instincts were directed toward achieving economic, that is peaceful, objectives, it would not at the same time be directed to militarism. However, since it is politically impossible at the present time for the peoples of Western Europe and the Far East to minimize the mass transportation of materials within their own regions of natural raw-material supply, the energy of these peoples is barred from organizing itself in the direction of maximum economic achievement unless a transformation of present political structures is first achieved. It is important to realize that not only education and social conditions, but also considerations of raw material, energy and transportation, act to prevent the cheap production of basic industrial and agricultural goods. Since production and consumption are limited, exports are also limited, and there occurs a shortage of foreign exchange including United States dollar exchange. On the other hand, there exists a great demand for, and dependence on, certain goods which can be economically produced only in regions such as the United States where the principle of least mass transportation is substantially fulfilled. This situation of dependence, and the symptomatic lack of means of payment, constitute the problem which most closely bears upon United States foreign policy and tax policy. It follows that, to achieve a full concentration of energy upon economic objectives within these regions, a major aim of our or any other foreign policy should be the economic integration of both the European and the Far Eastern regions.

There is no doubt that a strong world economic policy, based on scientific facts previously not put to work, can exert the strongest political influence, either toward peace and stability, or toward war and revolution. To realize this we have only to think of the power of the ideas of Marx which rested on an appeal to econom-

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ics. Many of the troubles of the world since Marx's time were indirectly due to errors of Marx. One of these was the error of economic determinism, which is the consideration of patterns of history from the point of view of certain social-economic patterns of industry without realizing that this point of view abstracts from other geographical, technical, ecological, political and social considerations. Another error lay in applying to political, social and economic questions those teachings, incorrectly attributed to Darwin, which describe evolution as taking place through selection by physical combat; these generalizations have, in any case, subsequently been radically modified even as to their biological applications. Marx's point of view was due to his having employed and adapted the current "scientific" abstractions, without applying to them the test of adequate factual experience. There is considerable evidence to show that our basic power-political generalization is, in respect to adequacy of support by facts, in the same category with the class struggle idea of Marx and that it also may produce undesirable consequences. Such consequences, if they exist, would tend to undermine and contradict the positive and progressive values of the "American Way of Life" which are everywhere apparent in the world today.

Let us, therefore, explore the possibilities of an economic policy based on the political integration (at least with respect to trade barriers, fiscal and monetary policy, and military policy) of Region B, including Western Europe, the Middle East and Western Russia on the one hand, and Region C, including China and Japan and most of the Far East on the other. Many questions could be asked concerning such a policy: What support could we expect to receive for it, not only in the United States, but, for example, behind the Iron Curtain and in China? To what degree might such a policy achieve its stated claims, and to what extent might it achieve other desirable objectives outside the economic field? Might it lessen the danger of war and militarism? Might it strengthen the free-enterprise system? Might it increase the numbers of the "middle class" by providing means for improved education or by increasing wealth and leisure? A start can be made by

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examining the economic and political effects of such a policy on Region B. Since that region includes Western Russia, let us examine the probable reaction of the average Russian to our present power-political policy, and let us consider how he might react to formulation and support of the recommended policy by the United States.

First of all, just as we read mostly American newspapers and listen to American radio, we can expect him to derive his information almost entirely from Russian sources. Just as we hear about the Russian military danger, armies of occupation, compulsory labor and military service, we can expect him to hear about American airfields and atomic bombs. In other words, he regards us as a powerful potential aggressor as we do him. We can imagine that, looking at our troops and equipment, from Korea to Indo-China, to Pakistan to Turkey to Germany, the Russian or Chinese must feel much as we should if Russian or Chinese troops were in Alaska, Greenland, Venezuela and Mexico. Putting the matter in other words, insecurity and fear play just as large a part (or larger) in determining the political attitudes of the Russian as they do of the American.

Because he is familiar with the "new ideas" in Russian politics, but not with the new ideas of United States politics, it will appear to the Russian (or the Chinese) that in the fringe countries of the Far East, the United States and its allies are presently supporting the old political structures of colonialism, while in the Middle East he will feel that they are supporting a policy of Balkanization and, to some extent, exploitation.

The individual Russian certainly shares with other peoples a belief in economic progress and a desire to replace outworn institutions by new and better ones. In spite of perfectly clear evidence of the Russian's disillusionment with his own past militaristic policies and Marxist abstractions, it is a psychological contradiction to expect that the Russian no longer finds reasons to identify himself, his régime, his nation, and his group efforts with progress along many lines and that he should repudiate the substantial technical, economic and educational improvements that have been achieved during the period of the

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Communist régime as compared with past Russian history. Forced to adapt himself to the customs and institutions available to him, and lacking outside information, his perspective realistically shows more promise of economic betterment for himself in the policies of his own government than in those of the Western countries.

It appears to be a fact that the Russian still mistakenly associates twentieth-century Western European and American policies with nineteenth-century colonialism and the form of capitalism which can be described as making a commodity out of labor. Certainly it is natural that the distinctions between British, German, French and American policies of various dates have always been vague in Russian and Oriental minds; accordingly, as a result of Marxist training, Western policies are to a large extent identified with one another in respect to this important question. From his own point of view, therefore, the Russian (or Chinese) probably does not associate the spread of militarism in the twentieth century with communism, but, on the contrary, with the institutions of the West. Until recently no Western European or American policies had been devised which showed promise of seriously influencing political objectives and customs within the communist nations.

In view of his interpretation of our military and political attitudes, what the Russian hears about the American desire to overthrow "communism" and establish "democratic" governments all over the world must have an entirely different meaning to him than it does for us since, among other things, he can no more separate our global military activities, direct or indirect, from our politics and propaganda than we can separate Russian military aggression from the "ideal of world communism". In this atmosphere of opinion and of arguing from abstractions on both sides, it is rather naïve to expect the Russian to distinguish between a policy of opposition to the Russian government and another, friendly, policy toward the people. We must assume that, just as Russian military preparations strengthen national unity inside the United States, so American military preparations strengthen the loyalties of the Russians to their present régime. This leads to the conclusion, a negative one,

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that our present propaganda methods cannot achieve their objectives in Russia.

However, a positive weakness of the present situation in Russia has been pointed out by almost all Western political writers. This weakness is economic, and consists in the fact that the Russian people are well aware of their low standard of living in comparison with Western Europe. For the most part they appear to realize at the present time that their past military, economic and political policies are incompatible with increased living standards. This corresponds to the awakening realization in the United States that the production of armaments and the exporting of national resources to dependent states all over the globe represent misuse and disorganization of our industrial technology rather than insurance for its advance. In respect to the Russian people, we would have good reason to expect that the objectives of Western Russian participation in a European federation would appeal strongly to them. They could then hope for a removal of political and economic restrictions and for greatly expanded trade with Western Europe.

It should be pointed out that, taking into account the small population of Russia west of the Urals as compared with the 395 million people of Western Europe, as well as other factors, the political-economic separation of Western Russia from Western Europe has quite similar implications to a division of the United States itself into parts lying west and east of the Mississippi. At any rate, the advantages of economic-political integration with Western Europe have been stressed by Russian statesmen since the time of Peter the Great.

To state such an objective for Region B is quite another matter than to expect its immediate realization or to argue that the end justifies the means used. Quite the contrary: the objective must be regarded as an abstraction and, accordingly, its accomplishment must take account of relevant political factors existing and developing from time to time, including especially the political attitudes of the principal existing governments with respect to the use of force, and including also the major existing currents of public opinion. But we must not be resigned to read into current and future European history

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only the trivial and inevitable intrigues of power politics: it is true in politics as well as in science that the abstract projections and plans of today frequently become the better realities of the not-so-distant future.

In the period since World War II, the United States military force in Europe has probably not been in a position by itself to determine the immediate military outcome in Europe of a Russian attack if it occurred. War in Europe has nevertheless not taken place. It is generally recognized that we owe this to the fact that military factors such as our possession of the atom bomb have been combined with political and economic influences under the most active and far-sighted political guidance which we have enjoyed in the twentieth century. However, there is a great deal of evidence that, in such times and places as our thinking loses sight of broader political objectives than the power-political ones, it degenerates into a militaristic position and promotes those movements of national isolation which are tending to dismember the European society. The effects of such movements lie beyond the power of militarism to undo, since they reflect in mass political changes both within the countries themselves and in their relations with one another.[2]

Our past objective, the European Defense Community, was, however, intended not only as a step toward remilitarization, but as a means toward European union as well. From the standpoint of this article present events seem to indicate that its military value was overestimated and its political effects undervalued. Another view, recently discussed, is that Europe should remain a series of "independent" and neutral buffer states. This view neglects the political consequences, in Europe as well as in the United States, of American withdrawal. Withdrawal of American economic influence means withdrawal of political influence as well; this latter change necessarily involves a relative increase in Russian economic and political

[2] The military viewpoint also neglects the fact that an economy dependent on government financing of arms production is an inherently unbalanced economy founded on continuously increasing debt to the banking system. Other factors being equal, the repayment or even the leveling off of this debt spells recession, and sooner or later such an economy reaches the turning point of choice between war on the one hand, and evolutionary economic adjustments on the other.

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influence. It may be questioned whether there has been an instance in history where the political *status quo* has been maintained in a region by constituting it a buffer area between two great Powers.

The alternative position for American foreign policy is to strengthen by active measures, directly and indirectly, those forces which are working toward European union and toward stronger and healthier European political, fiscal and economic institutions. Perhaps the Council of Europe is today potentially as significant for world peace as the United Nations. Our program for the development of stronger institutions should be unified and concrete. Our actions should be projected as the initial stages of a dynamic, explicit, long-range plan which, among other things, will provide Europe with the means for achieving those material advantages which we in the United States have attained by free enterprise coupled with political union and mitigated by balanced, evolutionary means of social coöperation and control. Such benefits should not exclude the Russian people nor fail to take their government into account. The greatest expansive development along peaceful lines would come about through integration of the resources and markets of Western Russia with those of Western Europe. We in the United States must face the fact that we cannot continue indirectly to sanction political division elsewhere on the ground of the primary power-political assumption while we benefit from the strength and integral political organization which we have created in our own history through the principle of union.

It has been asserted that the primary political assumption has been mistakenly used to prevent economic-political integration of Region B. It is perfectly true that such integrations would always present a potential danger to the United States just as our power now constitutes at least a potential danger to all other nations on the globe. However, as regards Region C in the Far East, it would be an exaggeration to take the view that this region's military potential has yet become a practical threat to the independence or integrity of the United States. Yet this is a region in which our policies have proved

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exceptionally sterile because of the improper application of the primary power-political assumption. At the beginning of the industrial revolution, the Far East, together with other regions, was entirely dependent on Western Europe and the United States for the introduction of equipment for industrialization. Since the industrial revolution has reached Japan and India, these countries have been able, with lower labor costs, to produce many goods for delivery at far lower cost than they could be imported from Western countries. But, in addition, the industrial revolution has introduced the principle of least mass transportation of materials into Region C on a scale previously unknown. As an example of the working out of this principle, it is now inconceivable that for the sake of purchasing American equipment China and Manchuria could rely on the export of grain or iron ore to the United States. We can produce and deliver these latter products more cheaply in the North American countries. If China and Manchuria wish to barter grain for machinery and equipment, they will have to sell to countries near at hand, such as Japan. They can do this only if these latter countries are not prevented by political considerations from exporting to China and Manchuria.

Region C requires for its progress the interdependence of China, Japan, Malaya, Indonesia and Manchuria. The patchwork system of political states and the ideological political divisions between "communism" and "capitalism" in the Far East accord ill with the economic structure of this region. It will be recalled that up until World War II China had been one of the world's great trading countries, and that the great cities of China have all been created and developed by commerce. While commerce between China and other Asian countries across the China Sea is a natural and basic fact for any student of recent Chinese history, there has been no substantial recent peacetime trade between Western Russia and China. This is, of course, due to the length of the Trans-Siberian railroad and the consequent impracticability of transporting Chinese goods overland to the market of European Russia as against transporting them across the seas to points in the Far East.

At the present time the cumulative maladjustment due to

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past policies is being demonstrated in Japan, which today constitutes a power vacuum cut off from its most natural markets. The military defeat of Japan may not prove as hard for the Japanese to bear as the economic frustration which they are now suffering by reason of the power-political divisions within East Asia which have followed our victory.

Having given brief attention to European and Far Eastern affairs, we may contrast economic conditions there with North America and consider how much the economic unity of the North American continent may have to do with creating the conditions for progress. In South America, we may ask the same question in respect to Brazil, a country covering an immense area of diversified resources. We may well ask, how much has political unity over the vast region of Brazil to do with the fact that today Brazil is becoming a dominant Power in South America in terms of industrial power and living standards? For a treatment of questions of political ecology in South America and the importance of unified political structures there, the reader is referred to Louis Bromfield's excellent book, *A New Pattern for a Tired World.*

Our discussion has indicated that throughout the world there are today only a few regions which have achieved a degree of political-economic integration commensurate with the needs of this industrial age. Outside these territories and scattered among them lie nations and "buffer states" in various degrees of economic and, consequently, political disequilibrium. Depending on the response of their inhabitants to these conditions, and the technical resources at their disposal, these countries may adopt an aggressive or a submissive attitude. In the former case, they will seek to absorb their neighbors either by peaceful federation or by a policy of military aggression. In the latter case, they will tend to be absorbed by a dominant neighboring Power.[3]

[3] The latter case, of course, is illustrated by the manner in which Poland, Czechoslovakia, the Baltic States, etc., have given way before the dominant power, first of Germany and subsequently of Russia.

The above countries, together with Yugoslavia, were political entities organized on the principle of linguistic union, but their period of birth, following World War I, came at a time when this criterion was no longer adequate. Apart from the

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It is in the countries belonging to these two groups, and not in the relatively stable countries, that wars of the twentieth century have broken out. That the recent history and fate of these countries have been so closely linked with the power-political thinking and politics of the larger Powers is a fact that in itself provides sufficient reason to reëxamine the basis of this thinking and this politics. Certainly we know that what has prevented this reëxamination in every great nation, including our own, has been a general fear of exposure to concentrated sources of power directed against the homeland by other nations. However, now that technical and atomic developments have proceeded so rapidly, it is necessary to take into account that the possibility of exposure will become more and more independent of the geographical extent and resources of the potential aggressors, since most of the leading nations will be able to deliver a knockout blow anywhere on the planet. These developments may have reduced the force of the power-political arguments at the point where they have acquired their strongest hold by evoking public fears and general suspicion. They may have brought us to the point of recognizing that power politics cannot be successful politics in the twentieth century.

It is the conclusion of this article that the power-political formulations do not take adequate account of the significance of economic-geographic and technical considerations for world politics today. Understanding of these factors could certainly be deepened by international study; this field of study would unify, from a political standpoint, the relevant aspects of various specialized scientific disciplines, such as geography, ecology and anthropology. Such a study might be called "political ecology"; it is a field in which international investigations, being based on scientific facts, could be expected to lead to a large measure

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principle of linguistic union, the purpose of their creation, from the point of view of many of their founders, was to form a series of buffer states for the working out of "balance of power" politics. Wilson's purpose was an exception in that he tried to act on idealistic grounds. His case is important because it shows that, frequently, those who hold the highest ideals unfortunately disregard basic economic and geographical factors. Such political structures as the above, to the extent they are based on language or other political grounds of union alone, and not on modern geographical and economic conditions, must be considered obsolete.

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of agreement and to development of new forms of coöperation. On the other hand, power politics, which is not a science but a political formulation, cannot possibly be the subject of international coöperative study, for the obvious reason that the basic assumptions of all participating nations would be entirely different. The same difficulties would always recur; for example, what the representative of one nation would be referring to as achieving a balance of power, his opponent would refer to as an aggression. The reader can surely adduce many examples of his own.

The basic challenge of the twentieth century is not one to be solved by either the panegyrics or the name-callings of "militarists", "Communists", or power politicians. It is grounded in the problem whether or not scientific method is to be limited to technical questions or whether it will be used actively and as a matter of principle for intelligent human and social planning, education, politics, and engineering. The alternative is the continued reliance on abstract moral principles, frequently sanctioned by force, and the knowledge that this era of danger will continue until the solution is found.

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INFLEXIBLE INTEREST RATES AND ECONOMIC POLICY:

THE CASE OF NORWAY 1946–1956

THE increase in the Norwegian central bank's discount rate on February 15, 1955 turned a new leaf in Norway's post-war economic policies. The announcement of the rate increase from 2½ to 3½ per cent ended, almost dramatically, a nine-year régime during which virtually the entire structure of interest rates had been rigidly frozen and monetary control instruments had been shelved in favor of more direct measures for influencing the pace and the direction of economic activity. For a time at least, some of the shortcomings of these policies were concealed by the world-wide inflationary pressures, by generous foreign aid, and by what appeared to be a satisfactory rate of recovery from the war. But as the world economic panorama began to change in the fifties and mounting inflation in Norway gradually pierced the network of direct economic controls that had been fashioned, the adverse effects of the fixed-interest rate policy became increasingly apparent and finally had to be modified. The Norwegian attempt to steer an economic course for nearly a decade with the rudder of monetary policy rigidly fixed in one direction may serve as a useful case study of the rationale and the results of an economic policy that excludes the use of flexible monetary control instruments or relegates it to a subordinate rôle.*

I

Norway suffers from the disadvantages of two equally difficult worlds. On the one hand, she is subject to all the uncertainties faced by a number of countries whose standards of living depend upon a high volume of foreign trade and the export of a

* The views expressed here are those of the author only, and are not to be construed as reflecting in any way the views of the Federal Reserve Bank of New York.

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few major commodities. What coffee is to Brazil and rubber to Malaya, shipping is to Norway. More than one third of the country's import bill is customarily financed by earnings from shipping, and these in turn are dependent upon freight rates and the level of world prosperity. The resulting exposure of the economy to international economic fluctuations makes flexibility in monetary policy particularly important and, indeed, virtually indispensable.

On the other hand, Norway has achieved a degree of industrialization and urbanization that leaves her susceptible, like other advanced countries, to industrial unemployment and the social problems it creates. Norway's nearness to the industrial heart of the world, and her long tradition of social welfare, have made her also extremely receptive to concepts of social improvement, redistribution of income and full employment, which put a heavy burden on her resources and tend to reduce the scope for monetary flexibility.

This dilemma was resolved at the end of World War II by the overriding need to restore the country's shattered economy and accelerate its long-term growth and diversification. To achieve these ends, the authorities determined upon a policy of stimulating capital investment by keeping interest rates artificially low and credit abundant. The preference for cheap money was strengthened by the widespread conviction in Norway that tight money was incompatible with full employment and that, moreover, the post-war period would be marked by a return to the pre-war depressed world economic conditions, from which the Norwegian economy needed to protect itself.

Once this course had been selected, it had to be buttressed by an elaborate system of physical controls over the economy, designed to minimize the economic distortions which were bound to result from a policy of excessive monetary ease. Therefore, the Norwegian government began to formulate annually so-called National Budgets designed to show in considerable detail the projected flow of national income and expenditure and to express the declared programs for economic policy and planning. The chief difficulties were that the major sectors of the economy continued to remain subject to the individual decisions of private

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entrepreneurs and the interplay of market forces, while more than one third of national output, being dependent on world trade, likewise could not be effectively controlled or planned for. In consequence, the National Budgets have frequently proved to be off their mark and their usefulness has been limited accordingly.

In surveying Norwegian monetary developments since the end of World War II, we may distinguish three main phases. The first, from 1946 to mid-1950, was one of suppressed inflation, during which the economy, although surrounded with a network of controls, seemed, nevertheless, to be moving toward balance. The second, beginning roughly in mid-1950 and ending in early 1955, was dominated by rising prices, a falling rate of industrial expansion, increasing imbalance on the money and capital market, and wide fluctuations in the balance of payments. The third phase began in February 1955 with the modification of the fixed-interest rate policy and the adoption of some monetary restraints. We may now examine each of these phases at closer range.

II

The period 1946–1950 was one of emergency in Norway during which all resources, human and material, were directed at restoring the country's productive structure and solving the gigantic adjustment problem that the changed pattern of world trade was imposing. These problems, along with Norway's long-term problem of developing her resources and industrial potential, were fundamental determinants of the economic and financial policies that were to be pursued for nearly a decade.

The reconstruction task was large and its psychological impact on policy was intense. For instance, Norway sustained a loss of 15–20 per cent of her capital assets, about half of which was concentrated in shipping, transportation and industry. The immediate producing and earning capacity of the country consequently was severely impaired, and the reaction to these losses was an immediate and almost unanimous clamor for measures, regardless of their implications or consequences, that would help restore the country's productive structure as quickly as possible.

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Although the reconstruction task was great, there were also a number of decisive favorable factors that facilitated the recovery. Despite the damage and plundering by the occupation forces, the fundamental trading and producing capacity of the economy, except for shipping, could be rather quickly restored by making key repairs at strategic points in the productive process. These often sufficed to set in motion a chain reaction that affected several industries at a time and induced an expansion in output out of proportion to the initial investment in new equipment. Moreover, the large physical losses in capital assets must be set off against gains in the form of accumulated foreign exchange reserves, which had grown from 800 million kroner in 1940 to more than 3.2 billion at the end of 1945, and represented shipping earnings and insurance payments for ships lost during the war. In addition, Norway's external debt had been substantially reduced.

While output immediately after the war was down to about two thirds of pre-war output, Norway emerged from the war with a money supply that had increased roughly 4½ times, and with a banking system that was excessively liquid and largely independent of central bank credit. At the end of 1946, for instance, loans and advances of the central bank (Norges Bank) represented less than ½ of 1 per cent of total assets, in contrast to nearly 50 per cent before the war. On the other hand, more than 90 per cent of the Norges Bank assets consisted of the so-called "occupation account" which had originated in the drawings on the central bank by the German occupation authorities during the war. The counterpart of this "asset" of the central bank was represented by the massive expansion of notes in circulation and of deposits in the private banks.

Commercial and savings bank assets more than doubled during the war, and in 1945 consisted mainly of Norwegian securities, while the proportion comprising loans and advances to the public had been cut by one half. Bank portfolios were replete with primary and secondary reserves ready for use in the form of loans and advances to business and the public. Hence, at the end of the war, all the ingredients of a first-class inflation were present in the economy: the money supply as a percentage of

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national income had risen to 68 per cent from 34 per cent before the war, and the liquidity ratio of the banks had advanced to 169 per cent from 41 per cent.

Under these circumstances the economy might have been subjected to a thoroughgoing monetary reform in order to bring the supply of money into balance with that of goods. But to have any enduring effects, such a step would have had to be firmly buttressed by credit restraints, which were rejected, however, for fear that economic recovery and employment would thereby be adversely affected. Although a currency reform was enacted in September 1945, its purpose was mainly to impound excess wartime profits. Neither did it have a lasting effect on the money supply nor did it carry any positive implication as to the use of flexible control instruments. Whatever contractive effects the reform may have had initially were quickly offset by the lowering of the Norges Bank discount rate in January 1946 from 3 to 2½ per cent. This step suggested that monetary policy was to be rendered quite passive among the instruments of economic control. Rather, the authorities hoped that by stimulating investment and production, and by utilizing accumulated foreign exchange reserves to expand imports, the excess money supply would gradually be absorbed and inflationary pressures held to a minimum.

Reconstruction began immediately after the liberation with an effort at intensive-capital investment—both public and private—that absorbed about 34 per cent of the gross national product during 1946–1950; this compares with about 26 per cent before the war, and an average of 17 per cent invested in other Western European countries in the early post-war years. The exceptionally high investment ratio reflected not only the stimulative effects of the relatively low interest rate, but also the great need for certain capital-intensive investment projects, in accordance with the requirements of the country's long-term economic development. Total domestic savings financed only between 80 and 90 per cent of the gross capital formation in the first five post-war years, the remainder being covered mainly by import surpluses. With the prevailing inflationary undercurrents, however, private savings tended to decline in importance

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while government savings, in the form of budget surpluses, gained substantially.

During the first four post-war years when reconstruction from the war dominated economic policy, investment in the productive sectors of the economy was given top priority, while investment in projects of a social nature received relatively less attention. By 1950, therefore, capital formation in mining, manufacturing, shipping and electric power absorbed nearly three fifths of total gross investment compared with about two fifths before the war; social improvements, on the other hand, which earlier had accounted for 25 per cent of the total, in 1950 comprised only about one fifth. Considering the sheer size of the investment effort and its direction toward enterprises that would raise national output and export capacity, it was not too surprising that production should surge upward by leaps and bounds. As early as the end of 1946, the real gross national product of Norway had recovered to its pre-war level and by 1950 it was a full 31 per cent higher. This advance was by no means even, however, and some important bottlenecks—particularly in the shipping industry—remained. Nevertheless, the over-all gains achieved attested to the rather remarkable recuperative capacity of the economy, which to a considerable extent was due to the ability to finance the growing import surpluses.

During 1946–1950 exports of goods and services sufficed on the average to pay for not more than about 80 per cent of the import bill. Despite the fairly marked expansion of exports that reflected the rapid growth of productive capacity, the current account deficit widened from 612 million kroner in 1946 to nearly 1.2 billion in 1949, and then fell to 794 million in 1950. This deterioration resulted partly from the rapid increase in commodity imports that accompanied the rise in domestic incomes; partly, it also reflected the massive capital investment program for reconstruction and long-run economic development that required increasing supplies of imported raw materials. One of the main reasons for the growing external disequilibrium, however, was the need to import an increasing number of ships in order to restore the country's merchant fleet, two thirds of

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which had been lost during the war. Moreover, while these outward payments rose, income from shipping services—traditionally, Norway's major source of foreign exchange—could recover to its pre-war level only as rapidly as new merchant vessels could be launched.

In essence, the Norwegian policy-makers interpreted the balance-of-payments deficit as reflecting primarily long-run problems, notably the need to restore the shipping industry and to diversify the economy by developing other economic sectors. Hence, it was felt that under the circumstances external disequilibrium was not only unavoidable, but indeed almost necessary, in order to eliminate some of the basic causes of the imbalance. The prevailing conviction both within and outside government circles was that it would be unwise to apply monetary restraints in order to balance the external accounts at a time when foreign exchange reserves were still fairly ample and foreign aid was forthcoming. Not only that, but the imposition of such restraints would mean sacrificing the long-run development of the economy and the eventual achievement of a sound basis for external balance to purely short-run considerations. Clearly, however, without rising foreign aid, the external deficits would have necessitated far-reaching adjustments in the entire economic program, particularly in the rate of investment which depends to the extent of about 40 per cent on imports of investment goods and raw materials. But since foreign aid, mainly from the United States, increased from about 100 million kroner in 1946 to more than 1 billion in 1950 when it more than covered the current account deficit, there was no great cause for alarm over the external imbalance, particularly since this external assistance obviated any critical inroads upon the country's gold and foreign exchange reserves.

This ability to finance the import surplus greatly aided in the implementation of the price and wage stabilization policies pursued during 1946–1950. One would be quite justified in saying that, despite price controls, it would have been extremely difficult—without the expansion of imports—to hold the cost-of-living index to its 5 per cent rise during 1946–1950, a period in

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which internal expansionary pressures were quite formidable. In these years, Norway, of all the Western European nations, had probably developed the most comprehensive system of economic controls in operation and was the most reluctant to abandon it. It was a system based upon wage freezes and price and dividend controls, fortified by an extensive system of government subsidies. Such direct intervention in the market place had of course become inevitable once the authorities had decided to intervene in the monetary field and to keep the interest rate structure fixed and at a low level regardless of the consequences. While these controls partly eliminated the *symptoms* of inflation, they obviously did little to cure the disease, and in some respects even did considerable harm. Most important, perhaps, the controls over wages and prices instilled a false confidence in the existing "stability" that tended to discourage their removal. When some controls eventually had to be removed in the years after 1950, the inflationary elements in the economy therefore proved to be still powerful, making the necessary adjustment more difficult and painful than in other countries that had relied less heavily on direct controls and subsidies.

Nevertheless, the fact that output increased 31 per cent during 1946–1950 while the money supply rose only 21 per cent was widely interpreted as a sign that the excess money supply was gradually being absorbed. But this tendency toward "balance" was more apparent than real since output had advanced from an abnormally low level and money supply from an excessively high level. Throughout this period, however, the money market exhibited a continuing and at some points quite strong tendency to tighten. The liquidity ratios of the commercial and savings banks declined rather consistently from 160 per cent in 1946 to 44 per cent in 1950, as massive demands were made upon the banking system to finance the growing volume of output, economic activity and international trade. Commercial and savings bank loans and advances more than doubled to 3.6 billion kroner during 1946–1950, and mortgages increased 2½ times, albeit from the abnormally low levels prevailing at the end of the war. On the other hand, the growth of total deposits was more subdued—only 18 per cent—while the proportion consisting of demand deposits actually declined.

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The divergent movements of bank lending and bank deposits are to be explained by the fact not only that the growth in production required an increase in the supply of money in circulation, but also that demand deposits were drawn upon to a considerable extent to finance the large import balances. Despite the undercurrents of inflation, moreover, there seems to have been quite a substantial shift from demand to time deposits, which showed a rather steady and quite substantial rise of about 1.4 billion kroner during the period; the shift was probably due to influences favoring a return to the pre-war pattern, when demand deposits had represented less than 10 per cent of total deposits as against close to 50 per cent after the war.

Government fiscal policy also played a significant rôle in the tightening of the money market. The revival of trade and economic activity in the early post-war years made considerable current budget surpluses possible; in the fiscal years 1946–47 to 1950–51 these averaged close to 120 million kroner. The surpluses were used, in conjunction with the American-aid counterpart funds, to reduce the occupation account at the Norges Bank from 8 billion kroner in 1948 to 6.3 billion by the end of 1950.

As the reconstruction phase drew to a close, the growing monetary tightness reached a rather critical point. In 1949 it forced the banks to sell their holdings of Treasury bills and to draw down their cash balances and deposits at the central bank; in the two years from December 1948 to December 1950 the banks reduced their holdings of Treasury bills from about 1.6 billion kroner to only 68 million. The situation became especially tight in 1950, after the outbreak of the Korean conflict, when the banks, faced with intensified demand for credit but unable to liquidate any more Treasury bills, were forced to fall back upon their primary reserves of cash and balances at the Norges Bank. In the twelve months from December 1949 to December 1950, these assets declined from 1.5 billion kroner to about 980 million. Although the liquidity position of the banking system had progressively weakened up to early 1950, it was still strong when compared with the pre-war position. Nevertheless, the rapidity with which the banks' reserves were

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declining created caution among the banks as regards their credit policies.

These developments were reflected in the growing difficulties on the capital market and in maintaining the low and inflexible interest rate structure. The scarcity of funds for capital investment was mirrored in the decline of government security prices and the upward movement of effective yields. During the period of lush monetary liquidity—roughly from 1946 to 1948—effective yields on various 2½ per cent government bonds fell from 2.96 to 2.49, but as the money market began to tighten after 1948, effective yields edged upward, reaching 2.58 in 1950; with this tightening of the monetary situation, the existing money rates were becoming increasingly unrealistic and difficult to maintain. The first symptom of the developing disequilibrium was the difficulty experienced by the state banks in securing funds for their investment operations. (The state banks, of which there are at present seven, were established by Parliament, for the most part after the war, to provide capital for investment in sectors of the economy that otherwise would have difficulty in obtaining it.) It had been contemplated that these banks would finance their loan operations in the various fields—housing, construction, agriculture, transport, fisheries, etc.—by selling their own 2.5 per cent bonds to the private banks and insurance companies. Until 1950 this was no great problem; but thereafter the shortage of investible funds, the growing tightness on the money market, and the upward pressure on effective long-term yields made it increasingly difficult to continue with this type of financing, at the same time subjecting the low- and fixed-interest rate policy to growing pressures and criticisms.

III

During 1950–1954 Norway entered a phase in her post-war economic development during which the problem of inflation was brought more and more into the open and the question of monetary policy developed into an issue of major importance. The pressures on the money and capital market which had

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already made themselves felt at the end of the forties were intensified in the early fifties by several new factors that created uncertainty in some Norwegian government and business circles over the advisability of continuing with the financial policies that had been pursued heretofore. One of these factors was the Korean conflict and its aftermath, which subjected Norway's external accounts to fairly wide swings and put the lack of resiliency of the domestic economy squarely into the forefront. Another factor was the growing tendency in the rest of Western Europe to dismantle economic controls, to liberalize trade, and to fall back upon flexible monetary control instruments in order to curb inflation. But inside Norway also, the policy of low and inflexible interest rates was beginning to result in shifts in the monetary equation that put rising pressures on prices, wages and the balance of payments.

On the output side, the annual average growth of the gross national product during 1950–1954 slowed down to 2.5 per cent, compared with 6 per cent during 1946–1950. This decline, which occurred despite the fact that the rate of investment of about 34 per cent of the gross national product was maintained virtually undiminished from the previous period, is to be explained mainly by two factors. First, the economy had reached full capacity and was passing to the broad development phase of its economic program, with greater stress being placed on the construction of new plants and new installations, rather than on repairs, thus requiring relatively larger investment outlays per unit of current output than previously. In addition, an increased proportion of investment expenditures was now being channeled into social improvements that obviously could not make a significant immediate contribution to physical output.

In contrast to the slow-down in production, the money supply expanded at an accelerated rate during 1950–1954. Of the total increase of about 31 per cent during the four years, 20 per cent occurred during 1950–1952 and reflected to a considerable extent the external surpluses recorded during the Korea boom. Thereafter, however, the expansion in the money supply was entirely of domestic origin and coincided with a sharp deterioration in the balance of payments that reflected the col-

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lapse of the international boom. This collapse and the fear that it would adversely affect domestic income and employment considerably strengthened the case of those who wished to maintain the low interest rate policies as a countercyclical device.

One of the major sources of the credit expansion during 1950–1954 was the state banks. Their investments nearly doubled in this period, from 1.9 billion kroner to 3.7 billion, as the emphasis on long-term development projects and social improvements—mainly housing—became more pronounced. The expansionary impact of these investment operations was reinforced by the manner in which they were being financed. As already mentioned, until 1950 the state banks had financed their lending operations by issuing 2.5 per cent bearer bonds; thereafter, however, the increasing tightness on the money market made it virtually impossible to find private subscribers to the 2.5 per cent bonds while the comparable yield on other effective long-term investments averaged about 3 per cent. Consequently, the state banks were to an increasing extent thrown back to the government for help to finance their lending operations. In 1951, therefore, the authorities had to release 400 million kroner from a special account blocked at the Norges Bank during the 1945 monetary reform for use by the state banks; thereafter, the government began to enter the money market on its own account, but on behalf of the state banks. Thus, during 1950–1954 the authorities borrowed an estimated 1 billion kroner from the private banks and the insurance companies in order to sustain the investment operations of the official credit institutions.

By borrowing from the private credit institutions in order to provide funds for the state banks the government hoped not only to sustain the latter's lending activities, but also to absorb sufficient resources from the joint-stock and savings banks to reduce their lending capacity. In the absence of statutory deposit-reserve requirements however, the private banks were able to draw fairly extensively on their liquid assets in order to expand their loans and investments both to the official and to the private sectors.

Total credit extended by the joint-stock and savings banks

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rose more than 50 per cent to 5.6 billion kroner during 1950–1954. During the first two years of the Korean war, bank deposits increased about 15 per cent, or by about 1.3 billion kroner. About half of this represented increases in demand deposits, and was chiefly the result of the balance-of-payments surplus. Over the same period, however, credit extended to the private sector in order to finance the rising volume of trade, investment activity and building construction advanced 30 per cent, or 1.6 billion, of which 350 million represented mortgage credit. The greater increase in bank credit than in total deposits did not result in a reduction in the banks' liquidity because of the substantial net liquidation of their long-term government security holdings, aggregating about 400 million kroner; indeed, the liquidity ratios of the private banking system as a whole increased from about 44 per cent to 47 per cent during 1951–1952.

After 1952 the situation changed drastically. The sharp deterioration of the external accounts limited the 1953–1954 increase in *total* deposits to about 800 million kroner, with demand deposits remaining virtually unchanged. Simultaneously, intensified government borrowing from the commercial and savings banks during 1953 and 1954 tended—at least temporarily, until the funds were again disbursed—to intensify the decline of bank liquidity. Thus, by the end of 1954 the ratio of demand liabilities to quick assets had fallen to 38 per cent.

During 1950–1954 financial policy was confronted with somewhat of a dilemma. On the one hand, there was growing anxiety over the rate of the monetary expansion and, on the other, there remained the commitment to maintain the level of investments by the state banks. In June 1952 a law was passed authorizing the government to impose cash deposit-reserve requirements on the joint-stock and savings banks up to a maximum of 25 per cent of demand liabilities. However, the law was not implemented until February 1955 because of the strong opposition of the private banks and the peculiar motives that seemingly lay behind it originally. As to the latter, the legislation apparently was not intended to be made im-

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mediately effective, but was designed to serve notice on the commercial and savings banks that a portion of their liquid reserve might be effectively "blocked" if they refused to lend to the government, while expanding credit to the private sector. At the same time, to coax the banks into subscribing to the government securities, a law empowering the authorities to set maximum interest rates was passed in 1953 which, together with repeated statements that no change in money rates was contemplated, served to allay any fears over the possibility of a drop in the capital value of bank investments.

What the authorities were apparently aiming at was selective credit control. They wished the commercial banks and savings banks to remain liquid enough to invest in government securities, yet wanted to make it difficult for them to expand their lending to the private sector. Thus, apart from the fact that the deposit-reserve requirements were not implemented, the authorities were exhorting the banks to reduce their lending and were issuing short-term Treasury bills (rather than the customary long-term bonds) in order to sustain the liquidity of the private banks.

Apart from the inflationary effects of the large investment operations of the state banks during 1950–1954, however, the method of financing these activities had the important side-effect of encouraging the development of a capital market and of gradually altering the government's attitude toward the maintenance of low and inflexible interest rates. The increase in the volume of outstanding government bonds and Treasury bills tended to widen the marketability of debt instruments and probably increased the scope for open market operations. At the same time, the government, in order to market its issues, was forced to vary the maturities of its bonds and to adjust yields upward, with the result that from December 1953 onward the official 2.5 per cent rate on long-term government bonds became somewhat of a fiction. At that time the government issued 80 million kroner in 3.5 per cent, 40-year bonds, and 120 million in 2.5 per cent, 10-year bonds, both of which issues were placed with the private credit institutions. In April 1954 a second group of loans was announced—80 million at 3.5 per cent

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for 40 years, 50 million at 3 per cent for 20 years, and 70 million at 2 to 2.5 per cent for 7 to 10 years. In the second half of 1954 three further loans from the banks and insurance companies were obtained—one for 21 million at 3.5 per cent with a maturity of 40 years, another for 100 million at 1.75 per cent for 3 years, and a third for 50 million at 3 per cent for 20 years. Altogether, nearly 600 million kroner was borrowed in late 1953 and 1954 to finance the state banks; but, what was more important, the higher interest rates and lower maturities on the loans constituted an adjustment to market pressures and furnished the first hint of a weakening of the government's stand on money rates.

Such a weakening was indeed inevitable, considering the intense upward pressure on prices and the deterioration in the balance of payments that began in 1952 and reflected the reluctance to bridle the monetary expansion and allow interest rates to find more realistic levels. In essence, the upsurge of prices in the fifties was symptomatic of the increasingly redundant money supply, generated by the continued high level of public and private domestic investment, while the expansion in physical output tapered off. It is only fair to say, however, that at least in part this intensification of the inflationary pressures was of external origin, particularly during 1950–1952 when the Korea boom temporarily turned the balance of payments in Norway's favor, bringing with it a sharp increase in import prices.

The extent of the inflation can partly be gauged by the fact that during 1950–1954 the cost of living advanced from 105 (1946 = 100) to 143, or by about 36 per cent, and wholesale prices rose 34 per cent. Doubtless, the continued maintenance of an elaborate system of price controls, materials allocation, dividend limitation and subsidies conceals the true extent of the inflation. That it was partly brought into the open, however, was less the result of a deliberate policy to allow market forces to come to the surface, than of the abrupt advance in import prices beginning in 1950 which necessitated higher subsidies, putting unbearable pressure on the government budget and eventually compelling the authorities to remove or raise the

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price ceilings. This, in turn, led to a relaxation of wage controls, thereby further aggravating the pressure on costs, prices, and the demand for bank credit—all according to the familiar pattern of the inflationary spiral.

During the first two years of the Korean conflict, the emergence of open inflation aroused concern, but did not give cause for alarm since the price advances were taking place against the background of an improving balance of payments. It is true that the increase in the Swedish discount rate had prompted a growing number of Norwegian bankers, business men and economists to reëxamine the implications of a cheap money policy and its possible results once the Korea boom had spent itself. But if any warning was sounded it fell upon deaf ears and government spokesmen reiterated their conviction that an upward adjustment of interest rates would precipitate a fall in economic activity, increase unemployment, and force a retreat from the elaborate social welfare policies to which the government was committed.

The improvement in the balance-of-payments position during 1950 and 1951 was indeed quite marked and reflected the near doubling of freight receipts as shipping space became increasingly scarce. Thus the 1949 current account deficit of 281 million kroner was turned into a surplus of 4 million in 1950 and 384 million in 1951, the largest recorded in the post-war period. It is important to note, however, that the rise in freight receipts also coincided with a record expansion in imports that would have made the achievement of a surplus impossible had it not been for American aid which also reached a peak at this time. The fact that the Norwegian balance-of-payments surplus was sustained chiefly by foreign aid, even though exports and invisible receipts were booming, should have served as the signal that a drastic monetary retrenchment was imperative.

Beginning in 1952 several factors converged to induce an alarming deterioration in the country's external accounts. For one thing, the collapse of the Korea boom sent merchandise exports and freight receipts tumbling; for another, American aid began to be cut drastically. Moreover, the preceding boom and the prevailing monetary ease had affected the means of

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payment sufficiently to add further to the pressure on imports. As a result, by 1952 the current account surplus had shrunk to a mere 8 million kroner, then turning into a deficit of more than 900 million in 1953 and close to 1.1 billion in 1954—the latter being virtually the same as the deficit recorded in 1946.

In the light of this growing crisis, it was only logical that attention should be drawn to the question of continuing the expansionary monetary policy. The debate that arose centered partly on the question of where the responsibility for inflation lay. In statistical terms, it would certainly appear that the increase in private bank credit would put the burden of responsibility on the joint-stock and savings banks. Such a conclusion, however, would imply that the authorities can somehow divest themselves of their responsibility for maintaining monetary stability. If the expansion of bank credit to the public was excessive and surpassed the volume of governmental borrowing from the banking system, it was because there existed no effective policy for limiting the volume of such lending; regarded in this light, the purely "defensive" policy of the monetary authorities places the responsibility for inflation on them. The government's unwillingness to implement the legislation providing for statutory deposit-reserve requirements made it possible for the banks to expand their loans and investments both to the government and to business and individuals by utilizing their available liquid reserves. The sale of government bonds, taken by itself, was at least temporarily contractive in nature and helped to develop a money market, but it could have only limited effectiveness in the absence of statutory deposit-reserve requirements through which these "open market operations" could only become effective.

IV

As the year 1954 drew to a close, virtually all the economic problems that had been regarded as fairly serious one year earlier not only were still unsolved, but had begun to assume crisis proportions. The expansion in the money supply and bank credit had gained momentum, investment expenditures

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continued to absorb about 35 per cent of the gross national product, and the cost-of-living index rose 5 per cent to 144 (1949 = 100), or just 2 points below the level at which a new round of wage adjustments would have been called for. The deterioration in the balance of payments and the rapid exhaustion of official gold and foreign exchange reserves, however, more than any other factor helped force the issue of monetary policy.

Indications that changes in financial policy were in the offing took the form not only of more frequent and outspoken criticism by public officials and others of existing policies, but also of concrete measures, such as the already noted increases in the interest rates on new government bond issues and the imposition of ceilings on the lending operations of the state banks. Nevertheless, the 1955 National Budget, submitted to Parliament in January 1955, was in many respects a disappointment. While singling out the balance-of-payments deficit as the chief problem to be solved and proposing a mild cutback in investment activity, it continued to place primary emphasis on safeguarding full employment and expanding social welfare; and, while the budget proposals purported to deal with the problem of reducing effective demand, no meaningful measures were recommended toward achieving that end. Consequently, in the early weeks of 1955 Norway's external accounts deteriorated further, with the result that by the end of January 1955 Norwegian official international reserves had declined to 124 million dollars, equivalent to barely six weeks' imports. At the same time Norway's debt to the European Payments Union had reached nearly 100 million. At this juncture a new labor government under the premiership of Einar Gerhardsen entered office, and in a fast-moving series of measures a new economic course was charted as the last alternative for coping with the crisis.

The first step was the imposition of statutory reserve requirements, in accordance with the law of June 1952. The announcement was made that as of February 1 banks with an operating capital of more than 100 million kroner would have to deposit an amount equal to 10 per cent of their demand deposits in a special account at the Norges Bank; for banks with operating

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capital between 10 and 100 million kroner the percentage was set at 5, while for smaller banks no reserve obligations were imposed.

Early in February speculation about a change in the discount rate became rife. The change in the Bank of England discount rate tended to put the spotlight on the Norges Bank rate, which was still frozen at 2.5 per cent, although, as mentioned earlier, effective rates had been moving steadily upward in preceding years. The anticipation of a change in the discount rate was apparent in the sharp decline in bond quotations, which fell 10 per cent in February; the only question seemed to be when the change would be announced and how great the increase would be. On February 14 the expected announcement came, the discount rate being raised 1 per cent to 3½ per cent. The upward adjustment of commercial and savings bank loan and deposit rates followed immediately, ranging from ½ of 1 per cent on discounts to 1 per cent on cash advances, mortgages and time deposits. However, the loan rates of the state banks, significantly, were left untouched.

The raising of the discount rate was quickly supplemented by a series of measures designed to reduce expenditures and increase savings. In a broad program the new Finance Minister Mons Lid announced the following chief measures: (1) a reduction of "regulated" commodity imports by 7 per cent; (2) a 10 per cent tax on contracts for new ships of over 2,500 gross tons; (3) a 10 per cent tax on imports of automobiles and trucks; (4) a turnover tax on building and construction other than residential dwellings and farm buildings; (5) a revision of depreciation allowances in order to discourage investment; (6) ceilings on the issue of nongovernment bearer bonds, and the screening of new issues by the Norges Bank; (7) the fixing of maximum commodity prices in the event voluntary price cuts could not be achieved; (8) a reduction of the anticipated 1955 budget deficit; (9) the curbing of the expenditures of local authorities; (10) the flotation of premium bond loans as an encouragement to private savings; and (11) the issue of additional state loans to finance the operations of the state banks and reduce the lending capacity of the private banks.

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In addition to these measures, steps were also taken to stimulate personal savings by abolishing the special tax on savings deposits of less than 5,000 kroner and appointing a government committee to study ways of encouraging thrift. Moreover, the state withdrew about 367 million kroner in liquidity from the economic system through the flotation of public loans; and beginning in June 1955, three-month, 2 per cent Treasury bills were issued, eligible to be purchased by both banks and private individuals, in an effort to develop these securities as instruments of monetary policy. The question now arises how successful this move toward greater monetary flexibility has been in bringing the volume of spending into better balance with available resources at constant prices and relieving the pressure on the balance of payments.

In the monetary sphere, the more or less unbroken expansion in bank credit to the private sector was brought to an abrupt halt in the second half of 1955. And although the Norges Bank increased its loans and discounts and its government bond holdings by 122 million kroner in the course of the year, the expansionary effect of these operations was nullified by 156 million in exchange sales. The virtual cessation of the increase in joint-stock and savings bank loans and investments reflected chiefly the tightened liquidity position that followed the flotation of the several state loans, mentioned above, as well as the more cautious lending policies of the banks, which were apparently engendered by the newly imposed statutory reserve requirements and the declining value of the banks' security portfolios.

During the same period, demand deposits of businesses and individuals also fell perceptibly, while time and savings deposits recorded a notable expansion. The latter development was particularly significant and doubtless the outcome of the stimuli provided to savings by the higher interest rates and the repeal of the special taxes on small savings. On the other hand, this rise in savings deposits, along with the disbursement of about 348 million kroner in public funds, that represented the proceeds of state loans, considerably augmented the liquidity of the banking system toward the end of the year and raised the danger of a renewed credit expansion. Very significantly, however,

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the government made no attempt to forestall this possibility by resorting to the now considerably sharpened quantitative monetary control instruments, but instead merely issued instructions to the banks in December, exhorting them to keep the total credit expansion in 1956 and 1957 to a volume not in excess of that extended in 1955. It was quite evident from this that the authorities were still reluctant to employ credit policy to the maximum extent possible and required.

This reluctance was partly reinforced by the decline in the growth of national output from about 3.5 per cent in 1954 to less than 3 per cent in 1955. Interestingly enough, this slow-down in the expansion of output was not the result of any reduction in the rate of investment which, in fact, increased 400 million kroner to 9.4 billion last year, and as a percentage of gross national product climbed from 35 to 36 per cent. That the rise in output tapered off despite the continued expansion in investment activity was chiefly due to the fact that high-productivity investment fell, notably in machinery, plant, equipment and transportation, while low-productivity investment, particularly in residential construction, rose under the continued stimulus of preferential credit treatment.

Under different circumstances such an expansion in the rate of investment might have generated renewed inflationary pressures. In this case, however, it did not. Both the index of wholesale prices and the cost of living were at about the same level at the turn of 1955 as at the beginning, despite the fact that substantial new wage increases had been granted. The main reason why greater pressures on the price level did not develop was that the propensity to save apparently increased and the terms of trade began to improve sharply, thus augmenting the real income of the economy.

That considerable excess demand still existed in the economy, however, was evident from the yet sizable balance-of-payments deficit of about 700 million kroner recorded in 1955. This deficit was about 300 million kroner smaller than that sustained in 1954 and admittedly represented a marked improvement. This improvement, however, was mainly the result of the expansion of export volume and prices; the fact that imports

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continued to rise perceptibly suggests strongly that the credit restraints had had little effect in reducing excess demand. Indeed, had Norway's terms of trade remained at the same level as in 1954, the balance-of-payments deficit would have been in the neighborhood of about 1.2 billion kroner, or even larger than that registered in the preceding year. This does not attest to any inherent weaknesses or ineffectiveness in the monetary control instruments employed but merely reflects the limited use to which they were being put.

Thus far during the current year these limitations in the use of monetary control instruments have become more perceptible, as renewed inflationary pressures have begun to dominate the economic scene. Unlike the expansionary tendencies in 1954 and 1955, however, those of this year are for the most part externally caused and therefore more difficult to control. The continued improvement in Norway's external position during the first half of the year—due mainly to the sustained expansion in the volume of exports and favorable prices—has led to an increase in liquidity via central bank purchases of foreign exchange. The net withdrawal of liquidity of about 443 million kroner that took place during the first five months of 1956 has chiefly reflected the government's budget surplus and continued public borrowing on behalf of the state banks. Nevertheless, the joint-stock and savings banks with their deposits up considerably, because of higher export receipts, have considerably stepped up the volume of their lending to the private sector, thereby setting into motion a marked secondary expansion in bank credit. Moreover, early this year, substantial wage increases were granted and government subsidies on a number of essential commodities lowered, with the result that by mid-year the cost of living had climbed about 5 per cent from the end-1955 level and was continuing to rise.

It is evident from these developments that monetary equilibrium has not yet been achieved in Norway, although admittedly the satisfactory external course of events has rendered the problems less acute than two years ago. The danger of a severe crisis, should the world economic panorama darken, remains. One might justifiably ask why the monetary measures intro-

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duced in 1955 have thus far failed to achieve all their hoped-for objectives and whether there exist certain institutional limitations to the effectiveness of a flexible and orthodox monetary policy.

Doubts regarding the rôle and potentialities of credit policy in the particular Norwegian environment have been expressed to an increasing extent since the Norges Bank discount rate was raised. Indeed, almost immediately after the "February measures" were put into force, official statements abounded to the effect that under no circumstances was any further rise in the level of interest rates envisaged, that the basis for low money rates still existed in Norway, and that low-cost credit was, in fact, an indispensable element for the country's long-term economic growth and full employment. To the outsider this could only signify that the imposition of credit restraints had been an extremely reluctant move, forced by an emergency situation, that was to be undone as quickly as circumstances would permit. It was therefore not too surprising that the authorities were unwilling to go further in the employment of monetary control instruments when it became apparent at the end of 1955 that inflation had by no means been brought under control.

The rationale upon which Norwegian reservations concerning the effectiveness of a flexible monetary policy rest is quite interesting and has recently been clarified in official public statements. With respect to the interest rate weapon, for instance, it is felt that although a sufficiently high rate can halt the credit expansion, the heavy-handed use of this weapon can readily cause unemployment and stagnation of production. On the other hand, even considerable changes in the level of interest rates may leave investment in certain sectors of the Norwegian economy virtually unaffected, notably the export industries which are largely self-financed. The widespread belief also exists that the volume of savings in Norway is relatively unresponsive to an increase in the interest rate and that, while the level of rates is a useful indication of the profitability of certain investment undertakings, some economic activities, notably housing, cannot be judged on such a basis; thus, al-

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though higher interest rates would be fully reflected in higher house rents and therefore speedily limit the demand for housing, this, it is claimed, would not solve the housing problem.

Some doubts have been expressed with respect to the strength of these arguments. First, as regards the alleged negative effects of high interest rates on the level of investment and employment, it has been pointed out that, under the existing circumstances in Norway, the purpose of raising interest rates would be merely to reduce the *excessive* rate of investment, while preserving full, but not over-full, employment. With respect to the claimed unresponsiveness of savings to higher interest rates, the facts suggest, on the contrary, that, since the rates were increased, savings have markedly increased in Norway. Moreover, in regard to the impact of higher interest rates on house rents, it is true that higher rents may reduce the demand for housing, which alone would not eliminate the housing shortage; it has also been argued, however, that higher rents would stimulate the needed expansion in the supply of housing that would furnish a sound basis for eventually solving the housing shortage.

The Norwegian authorities have also stated that changes in statutory bank-reserve requirements present special problems in Norway because of the large number of banks and the fact that their liquidity position differs widely, which makes it difficult to apply reserve requirements on an equitable basis. It is felt, moreover, that the mechanical application of reserve requirements can easily be misinterpreted by the banks as freeing them from the responsibility for undesirable monetary developments. These points have a certain validity, but they have been countered by the fact that there are also many banks in the United States and elsewhere with widely varying liquidity positions and policies; yet workable and effective formulas have been devised to make the application of reserve requirements as equitable as possible. With respect to the feeling that statutory reserve requirements would encourage the banks to lend to the limit of their capacity, there is no reason to believe that, considering the intense competition existing among Norwegian joint-stock and savings banks, this danger can be

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reduced by the absence of reserve requirements. Although such voluntary agreements as have been concluded with the banks at the end of 1955 regarding their lending operations might be effective in subduing the growth of credit, experience shows, particularly in the case of Sweden, that when demand for credit surges significantly upward, such arrangements tend to lose their force or collapse altogether.

It is true that the effectiveness of open market operations as a means of influencing the cost and availability of credit is still limited in Norway by the lack of suitable securities and the relatively small size of the market for them. The difficulty of developing Norwegian Treasury bills as an instrument for open market operations can be noted from the weak demand for them, because of other highly competitive investment media. However, in their search for a method of controlling the liquidity of the banking system, while simultaneously channeling funds to the state banks for what are regarded "desirable" investment operations, the authorities have, to an increasing extent, resorted to the placement of public bonds with the financial institutions. Admittedly, by reducing the cash base of the banking system as a result of such operations, the multiple expansion of bank credit to the private sector can be reduced. But how permanent an effect on the monetary situation is thereby obtained? Clearly, the disbursal of the proceeds of the loans throughout the economy, such as took place in the second half of 1955, again augments the liquidity of the economic system and tends to restore the level of bank deposits, thereby serving as the basis for a renewed expansion of loans to the private sector. Moreover, to the extent that the government bond flotations may finance low-productivity investment, for instance in residential housing, while high-productivity investments in the private sector are temporarily curtailed, the inflationary impulses might well be intensified by the debt operations. Besides, the placement of huge government bond issues, not always effectively tailored to investors' needs, basically involves rather cumbersome administrative, legal and financial processes. For an open economy like the Norwegian, this raises doubts as to the ability to employ such debt operations quickly and effectively enough

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to check the secondary credit expansion resulting from an export boom.

Apart from this, however, there is strong evidence to suggest that the economic environment in Norway is less of a barrier to the pursuit of effective monetary policies than is supposed by the authorities. This is clear from the perceptible decline in the expansion of bank credit in the second half of last year, following the imposition of the credit restraints, the details of which have already been described. That inflationary pressures have again mounted this year therefore seems to be less of an indication that interest rate policy and measures affecting bank reserves are ineffective in Norway, than that these measures have not been carried far enough to absorb the excess liquidity in the economic system and check the upsurge of effective demand.

V

The issues raised by the foregoing analysis cannot be distilled into simple cases of black and white, and the conclusions to be drawn from them are therefore neither final nor very dramatic. What the Norwegian experience under a protracted régime of low and inflexible interest rates does point up, however, is that such policies are in practice incapable of stimulating physical output sufficiently—as had been hoped—to absorb an excess in the money supply and thus guide the economy toward better balance. Ample foreign exchange reserves may, as in the Norwegian case, delay the need for basic adjustments in the economic system, but they can never obviate this necessity altogether, unless international reserves are in unlimited supply.

The course of post-war economic developments in Norway also underlines the fact that particularly flexible economic policies are required in an economy as exposed to external influences as the Norwegian. The failure to bridle the secondary credit expansion resulting from the export boom during the Korean conflict—indeed to reinforce it—resulted in an income expansion that intensified the pressure on prices and drove the cost and volume of imports to a level far in excess of what could be sustained under more normal world economic conditions. The collapse of the

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Korea boom, therefore, precipitated a balance-of-payments crisis that was the more alarming since international reserves had been partially depleted in the preceding years, United States aid was sharply tapering off, and the potentialities of monetary retrenchment were being rediscovered in a growing number of Norway's trading partners. The Norwegian experience after 1950 also shows that inflationary pressures cannot be indefinitely suppressed; given sufficient force, such as was produced by the rising cost of imports and expanding money income during the 1950–1951 boom, the pressure on the price level must inevitably break into the open, with all the attendant adverse effects on resource allocation and income distribution.

It has been suggested that the basic shortcoming of Norwegian economic policies since the war has been not so much the fact that the economic objectives Norway had set for herself were undesirable or too high, but rather that their realization was being sought at an excessively rapid rate. The preoccupation with a high rate of investment, even after the reconstruction task had been completed, blurred a recognition of the fact that the interest rate is not only an element of cost but also a measure of the profitability of enterprise, and that a rise in the rate may well bring forth the funds needed for economic growth and thus furnish a sound long-run basis for a rising level of employment.

Finally, there is little to suggest in the foregoing analysis that the effectiveness of flexible monetary control instruments is more limited in Norway—owing to the particular economic and financial structure found there—than it is in many other countries where such instruments have been successfully employed to achieve monetary stability. Thus the chairman of the Norwegian Bankers' Association rightly pointed out recently that "the problem of inflation is the same in Norway as in other countries, and an increase of the discount rate [there] would have the same [salutory] effect as in those countries where the discount rate has now been raised." Although the level of interest rates is now higher than prior to February 1955, there is as yet little to suggest that the rate of interest is being used, in conjunction with reserve requirements, open market operations and other tools, as flexibly as would appear to be possible

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and necessary. Nevertheless, owing to the fact that the extreme rigidity of monetary policy has been modified, and judging from the growing debate over the future course of financial policy, there is little doubt that Norway's financial leaders are gradually being brought to the realization that long-run objectives—no matter how desirable from an economic and social point of view—cannot be achieved without regard to the important rôle that flexible monetary control instruments, rationally employed, can play in furthering the economic growth of which the country is capable.

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REVIEWS

The Presidency Today. By EDWARD S. CORWIN and LOUIS W. KOENIG. New York, New York University Press, 1956.—ix, 138 pp. $3.00.

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The Rise of the Vice Presidency. By IRVING G. WILLIAMS. Washington, Public Affairs Press, 1956.—x, 266 pp. $4.50.

Theodore Roosevelt was accustomed to say that the presidency should be a powerful office and the President a powerful man who will take every advantage of it. That the presidency today is a powerful office few will dispute; nor will many deny that it needs a powerful man to fill it.

> The President is Chief of State, elected representative of all the people, national spokesman for them and to them. He is Commander in Chief of our armed forces. He is charged with the conduct of our foreign relations. He is Chief Executive of the nation's largest civilian organization. He must select and nominate all top officials of the executive branch and all federal judges. And on the legislative side, he has the obligation and the opportunity to recommend, and to approve or veto, legislation. Besides all this, it is to him that a great political party turns naturally for leadership, and that, too, he must provide as President. . . . He has also to lead the whole free world in overcoming the communist menace—and all this under the shadow of the atomic bomb. This is a huge challenge to the human being who occupies the presidential office.

These are the words of Mr. Truman, taken from his final State of the Union message on January 7, 1953; but they might serve as a brief summary, a publisher's blurb, of either of the two excellent books on the American presidency here under review.

These two books might, if their authors had so willed, have been conflated and presented to the busy reader in the form of a dialogue between Master and Disciple. Professor Rossiter was, in fact, a student of Professor Corwin's, and the reciprocal debts of the one to the other stand out on every page. In both books the various chapters of the presidential power are analyzed in much the same way; in both books similar accounts are given of the formation and historical development

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of the office of President; in both books like measures of praise and blame are meted out to dead heroes. Yet the two books are in some respects very different. Professors Corwin and Koenig are meliorists; Professor Rossiter is not. While the former are busy explaining difficulties, examining proposed solutions, and making suggestions, the latter is pleased (in effect) to hold up, as a warning to theoretical projectors, the celebrated Italian epitaph: "I was well; I would be better; I am here."

A single example may serve to make clear the doctrinal, perhaps I should say the emotional, opposition between these authors. Starting from the premise that the President has a legal authority, in cases of state necessity, to make or break law, Professors Corwin and Koenig view the future with some alarm and propose an institutional reform—the establishment of a new type of Cabinet—which would, in their opinion, "get at the root of the most persistent cause of presidential autocracy, the recalcitrance and negativism that he encounters in his relations with Congress in time of crisis." Starting from the same premise, Professor Rossiter views the future with equanimity; he devotes a chapter to proving that nothing is to be feared from occasional displays of presidential autocracy—that adequate safeguards (Congress, the judicial courts, the bureaucracy, the major parties, the states, business and labor, popular opinion, but, most of all, the conscience and training of the President himself) serve to keep the President upon the paths of virtue: "The power of the President moves as a mighty host only *with* the grain of liberty and morality."

* * *

In addition to these two new books on the presidency we have one on the vice presidency. Professor Williams thinks that the second office of the government is growing in importance because the second officer is becoming more and more involved in activities extraneous to his office. Whatever may be thought of the validity of the reasoning, one must admit that Professor Williams has given us an interesting and informative account of our vice presidents—who they were, how they got their appointments, and what they did while in office. Having finished the book, the reader may not be disposed to agree with John Randolph's statement that "the miserable creature who is generally appointed Vice President is selected merely because he is totally unfit to be President", but he will see that it contains a disturbing element of truth. And when he considers the elaborate scheme proposed by Professor Williams for solving the problem of presidential disability—a scheme which amounts to impeachment by a court physician, conviction by an Inability Committee,

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and ouster by the Vice President—he may wonder whether the problem has been rightly posed. Perhaps it is not the absence of machinery but the presence of the Vice President that has caused difficulties. Could it be that the constitutional provision relating to disability has remained a dead letter not because no one knows how, but because no one wants, to put it into effect?

LUCIUS WILMERDING, JR.

PRINCETON, N. J.

American State Politics: An Introduction. By V. O. KEY, JR. New York, Alfred A. Knopf, 1956.—xviii, 289, ix pp. $4.50.

This carefully executed and richly provocative treatise has several important merits. It sheds light upon a long-neglected but significant aspect of the political process—the politics of the states of the Union; it demonstrates the disciplined and fruitful uses of quantitative analysis (there are 23 charts or figures and 34 tables—all sharply illuminating and pertinent to the analysis); it reveals the rewarding prospects of the comparative study of the politics of the states as a way of increasing our knowledge and understanding of the political process generally.

The volume, which is much more than "an introduction" despite its self-effacing subtitle, will no doubt serve admirably to produce the results its author hopes for: "opening up the discussion of some of the major problems; suggesting modes of investigation, and stimulating further inquiry." While the author adopts a modest but pungent style and a restraint in generalization that do not permit for him any over-simplifying statement of basic theme or finding for his study, perhaps the reviewer (pleading the necessities of space) may attempt a condensed paraphrase: the states, broadly and comparatively studied, reveal the ironic phenomenon of *political atrophy* accompanied by *functional growth* (many of the states, in population and in magnitude of governmental operations, now exceed important national governments).

The explanation for this paradox (grave in its consequences, because political atrophy weakens the governing capacities of the states) is to be found in a complex of factors. As Professor Key's analysis painstakingly demonstrates, political atrophy in the states flows in largest part from "the fact that the doctrines and actions of a half a century have operated by and large to depreciate the role of party and to handicap its work." These doctrines and actions contributing to the depreciation of the political parties in the states include, as the main body of the volume demonstrates, the following: (1) the doctrine that state politics ought

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to be autonomous from national politics, a confusing and frustrating theory in action; (2) the "perversion of the separation of powers" through electoral arrangements which assure that at least one house of the state legislature will usually be controlled by a political party in opposition to the party of the governor, thus frustrating party responsibility for governing; (3) the state-wide direct primary, with its disintegrating effects upon party leadership, its tendencies to reflect the vagaries in the level and bias of electoral participation in primaries by producing erratic nominations which splinter the party, and its weakening of minority party leadership; (4) the "lottery of the long ballot", under which the election of a multiplicity of minor officers "complicates and obstructs popular decision"; and (5) the systematic disparagement of partisanship, an attitude which makes difficult the recruitment and maintenance of quality in the party leadership corps.

In a summing-up chapter, "Lines of Action", Professor Key reëmphasizes his conviction that political parties have a positive and useful, if indeed not an indispensable, function to perform, although he notes somewhat ruefully that "the position that strengthening partisanship would promote the public weal is a lonely one." The agenda of change, he concludes, center most importantly upon three items: a more effective organization of party leadership in the states; a reconstruction of state legislatures designed to lead toward a strengthened party system; a responsibile reconsideration of the state-wide direct primary with a view to reducing its deleterious effects upon party leadership and performance. To the reformers and others who for a half century have belittled the party as an institution he addresses his closing sentence: "The evangel who wishes to strengthen states in the governing process needs to work out ways and means to bring to the service of party a larger share of the energies and abilities of the potential resources of leadership."

WALLACE S. SAYRE

COLUMBIA UNIVERSITY

Military Policy and National Security. Edited by WILLIAM W. KAUFMANN. Princeton, Princeton University Press, 1956. —xi, 274 pp. $5.00.

For a hundred years Americans tended to treat military affairs with wishful neglect. The Cold War opened American eyes, perhaps too widely, to possibilities of violence. Military strategy became the government's paramount concern, and it also healthily became an important problem for scholars. At various universities groups have already begun

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in this area to perform the traditional functions of political science. They have begun translating official disclosures so that the public can gain some understanding of the problems that disturb the Pentagon. They have begun also to give these problems the sustained and critical thought for which officials rarely have either time or training. Finally, they have begun to print the results of their thought in the hope of practical use by the government. Columbia and Harvard have recently institutionalized programs for carrying out these functions, but the Princeton Center of International Studies took an early lead, and *Military Policy and National Security* is collected evidence of the intensity, quality and direction of the Center's work.

The collaborative volume admirably executes its triple function. Even those who try to keep up with such matters will find satisfyingly informative Roger Hilsman's essay on recent theories of strategy and Gordon Craig's discussion of German rearmament. William W. Kaufmann, the editor, contributes reflective essays on the demands made by the ambivalent Cold War strategy of the United States. In one chapter he deals with the requirements made on our total resources by the strategy of deterrence. In another he treats the demands of readiness for limited wars. Klaus Knorr, the fourth contributor, performs the final function of converting lay thought into bureaucratically usable form. In the two most stimulating essays of the volume, he discusses the possibilities of passive air defense and deals with the relation of economic power to military power in the hydrogen age. He suggests in the first of these essays that the government should encourage the dispersal of industry, population and military targets by such means as stimulating realistic fears of destruction. In his second essay he denies that the concept of war potential has been outmoded by the possibility that on D+1 the major antagonists will be fighting in the midst of radioactive rubble. Not only will technological and manpower potential remain decisive in limited wars, he argues, but war potential, more broadly construed, may yet be decisive in major wars. The difference, Knorr contends, is that the concept of war potential needs broadening to include administrative skills, such as those required by his passive air defense plans, and also recuperative capacity. His essays and Kaufmann's could usefully provide workday reading in various Washington offices, while the whole volume deserves a wide public audience.

If the book merits any criticism, it is due not to its content but to the narrow framework in which it is written. The authors share a preoccupation with war which one would rather expect from a band of officers insulated within the Pentagon than from a band of scholars. An essay

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by Hilsman, for example, treats of coalitions and alliances of the United States solely in terms of their military utility. The authors did not, of course, set out to deal with economic and moral conflict, but their essays show little concern with the argument, first advanced by Governor Harriman, that questions of military policy have become of secondary importance beside questions of economic foreign policy. Their single-minded preoccupation may, however, have been necessary to the thinking which this book reveals. Nearly all the useful analyses of urgent problems have had this characteristic. Nineteenth-century studies of international law and organization, for example, usually went in the other direction and ignored the possibility of war, while eighteenth-century inquiries into the military art, like Lloyd's and Guibert's, tended, as this volume does, to allow for pandemic violence. But these earlier works were no less useful on this account, and neither is *Military Policy and National Security*. A certain artificial rarefaction of atmosphere may be necessary to transmute sharp facts into malleable material for such careful, critical and sustained thought as this volume evidences.

ERNEST R. MAY

HARVARD UNIVERSITY

The Federal Antitrust Policy: Origination of an American Tradition. By HANS B. THORELLI. Baltimore, The Johns Hopkins Press, 1955.—xvi, 658 pp. $8.00.

Historians of the Sherman Antitrust Act have been primarily concerned with the period from the *Northern Securities* decision of 1904 to the present, viewing the *Northern Securities* case as the start of vigorous prosecution of the Sherman Act by the federal government, reversing a period of paralysis in antitrust prosecutions dating from the *E. C. Knight* case of 1895. Hans Thorelli, a Swedish scholar with degrees in law, economics and political science, argues not only that the period before 1904 has been seriously neglected, but that it was during these years that the antitrust movement was institutionalized.

Thorelli contends that the *Northern Securities* decision has been given undue importance, and that such cases as *Trans-Missouri Freight*, *Joint Traffic*, and *Addyston Pipe* had succeeded by 1903 in undoing much of the damage that the *Knight* case had done to effective antitrust litigation. He regards 1903, the concluding year of his study, as a milestone in the history of the antitrust movement, for in that year, for the first time, a president took a direct interest in enforcing the law, whereas up to that time there had been only sporadic efforts at enforcement by a "few spirited

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district attorneys", unaided and at times sabotaged by the Justice Department. The year 1903 was not only that of the *Beef Trust* and *Northern Securities* prosecutions, but the year when Congress, for the first time, made available special funds for antitrust enforcement and passed the Expediting Act to facilitate direct and speedy appeal of major cases to the Supreme Court from courts of first instance; it was the year of the creation of the Bureau of Corporations and of the Antitrust Division of the Department of Justice.

Thorelli's immensely learned volume, drawing on hitherto unused administrative archives of the Department of Justice and other virgin sources, presents a number of conclusions which contradict familiar assumptions about the period. He challenges the idea that the Sherman Act was not enforced in the 1890's because it was emasculated by the courts, observing that, on the whole, the courts did rather well, particularly at the close of the decade, and that the main blame must fall on the administrative officers who had little interest in enforcing the law. He believes that the traditional idea that Populism was a strong antimonopoly movement is mistaken, that there was no antitrust plank in the Omaha platform of 1892 or in later platforms, that the Populists, absorbed with the money question, had no public policy with respect to industrial combinations. He argues not only that this was the cause of the failure of Populism, but that the main reason for the failure of the Sherman Act to halt the combination movement in the 1890's was that there was no vigorous pressure group to enforce the law, Populism having "sapped the political interest of many farmers and laborers while a larger part of the business community was still enthralled with Social Darwinism and laissez faire."

The virtue of Thorelli's volume is its thoroughness; he gives us the fullest account ever written of the legislative history of the Sherman Act, and includes, for the first time, a discussion of every case in the field during this period. Unfortunately, he has made a vice of his virtue. This unnecessarily lengthy volume contains whole chapters like chapter 5 which are verbose accounts of political history with no point in such a specialized monograph. The narrative of the voyage of the Sherman bill through Congress is so detailed that it is little more than a *précis* of the *Congressional Record*, and much the same may be said of his treatment of cases; he shows no capacity to be selective. Throughout the book, he carries on a running war with every scholar who preceded him, giving an ill-tempered, dogmatic tone to the volume characteristic of the most objectionable Continental scholarship. An institutionalist, he has little flair for political analysis. Most seriously, Dr. Thorelli's objectivity is

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open to question; he is an avowed partisan of the Sherman Act, and he brings to this work the attitude of a defense attorney determined to scout even the most reasonable charges of lack of interest or bias in the Congress that passed the Act, although he concedes that the material does not lend itself to definitive judgments.

Despite the verbosity and ungainly style of his book—he is fond of words like "origination" and "impassionated"—Dr. Thorelli has made an important contribution by studying the period with a care it has never had before. Yet he does not convincingly demonstrate that the period was as significant as he claims, nor does he shed any important new light on the vexing problem of the motivations of Congress in passing the Sherman law. Why, in a period of great business influence, with no significant organized pressure groups demanding the law, Congress should, in a debate followed with little interest by the newspapers and in which many members did not trouble to participate, have made this major decision of public policy is a question that will continue to haunt both the jurist and the historian.

WILLIAM E. LEUCHTENBURG

COLUMBIA UNIVERSITY

Laissez Faire and the General-Welfare State: A Study of Conflict in American Thought, 1865–1901. By SIDNEY FINE. Ann Arbor, The University of Michigan Press, London, Oxford University Press, 1956.—x, 468 pp. $7.50.

"Jefferson said: 'that Government governs best which governs least.' It is as true today as it was yesterday." One reads this in *The New York Times*, on the day this book review is being written. It appears in a full-page advertisement—"paid for by the New York State Association of Electrical Workers—AFL." The objective is to cause Congressmen to believe that "Labor Fears Government Development of Niagara".

Rationalizations of supposed self-interest, such as that above, receive discriminating treatment in Mr. Fine's account. He deals understandingly, too, with what is less familiar, the teachings and programs and systems of a host of serious leaders—teachers and reformers, men of tough mind, men of compassionate heart. It makes an impressive story of a great movement in opinion and in public policy: how the American people, constantly arguing and reasoning among themselves, made the long journey from the rugged enterprise of 1865 to the Fair Deal of our mid-century. Certainly one would not call it a noble story—we all recall so much of plundering the public wealth and of seducing the citizens'

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intelligence. Yet it is an impressive record of adaptation, of learning to live together, of very substantial moral as well as material development.

Mr. Fine's essay is a work of scholarly distinction. He has read widely and thoughtfully. He marshals his materials effectively, and writes well. He does not pitch his tent in any one of the camps; every group in the varied throng is treated with dignity. One is struck with the detail and variety of the author's account. He worked patiently through little-used collections of manuscripts. He pressed his study to a mass of articles in a wide range of periodicals—bits of straw that show currents and eddies of opinion. He put forth the effort required to understand the participants in the great debate—the men of business and their counsel, the professors of the new academic specialties, the clergymen, the social workers, the party leaders. The author is concerned with what people said and thought; what actually resulted in the way of legislation is treated by broad generalization. The statutory and administrative devices by which objectives were achieved, and the practical consequences in the various sectors of the American society, fell outside the author's range.

The least satisfactory part—to this reviewer—was chapter v, "Laissez Faire Becomes the Law of the Land"—perhaps because this was read with a more critical eye. Since, however, Mr. Fine's chapter would rank well in comparison with many treatments of this theme, the comment that follows is of general application. Writers commonly treat judicial opinions as if they were scholastic essays, quite removed from the hard facts and the competing considerations of the actual controversy. (Sometimes, to be sure, they *are* mere essays—especially if in dissent.) In the responsible exercise of judicial power it is true, as Holmes said, that "General propositions do not decide concrete cases." So where a commentator skips over the facts of the case and the objectives of the litigation, and selects shining phrases, the resulting account may be oversimplified or downright misleading. Take an example. A judge holds that the people may not be taxed to make up a fund to give to a private business. An advocate argues that if the state is allowed to regulate railroad rates, we will be gravitating toward barbarism. From an abstractly theoretical standpoint, each may be quoted as urging laissez faire—yet in truth they were on opposing sides in the great battle over how to treat the railroads. The judge in the illustration is Mr. Justice Miller; the advocate is John W. Cary, outstanding among Western railroad lawyers. Mr. Fine mentions them, and a host of others, in close conjunction, as if they were all marching along together. Similarly as to Justices Field and Bradley, who are represented as fighting together

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on behalf of laissez faire, against the majority of the Court. Yet in truth Bradley was the strong man—stronger than Waite, C. J., who spoke for the Court—in deciding *Munn* v. *Illinois* and companion cases, sustaining state regulation of the rates of railroads and grain elevators. 5 *Stan. L. Rev.* 587 (1953). These examples, out of many that might be drawn from the chapter, show the danger in skimming the talk from the surface of the cases, without looking into the perplexing realities beneath. Writing in American history would gain mightily in power if its practitioners would make themselves more knowledgeable about the judicial process—in particular, would learn the use of records and briefs in the great cases on which they would comment.

In this one matter, Mr. Fine's book has been criticized for a defect common to most books of this sort. In other respects, let it be repeated, it is an uncommonly able performance. The power of discrimination here displayed should carry him to other and even better books.

CHARLES FAIRMAN

HARVARD LAW SCHOOL

The Power Elite. By C. WRIGHT MILLS. New York, Oxford University Press, 1956.—423 pp. $6.00.

The principal themes of Mr. Mills's sprawling, pungent, and sometimes rambunctious book have long since been spread in the public prints and are by now well known, if not to the power élite, at least to the intellectual—or powerless—élite. In brief summary, he is seeking the locus of national power, the identities of the men who make the big decisions. These men have come increasingly in American society to represent three institutional orders, the economic, the political, and the military. All three orders are marked by less and less autonomy in their individual units and more and more concentration of authority in their central organization. The men at the top of these hierarchies find it increasingly easy to move from one to another and they comprise, together, not a conspiracy, not a ruling class in Mosca's sense, not an organized group in any sense, but a power élite. At the bottom the old public with its voluntary associations has dissolved into a mass society. These developments consume the majority of the pages in the book and through them all there runs a strain of deep misgiving, of indignation only partially concealed, and of very real frustration.

Mills clearly does not suffer from the timidity which tends to be an occupational disease among contemporary sociologists, many of whom are most eager to talk about sociology and most reluctant to talk about

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society. Indeed, the author merits commendation for making an assault, in this as in his other books, upon a vital problem of our time. It is even refreshing to have him say (p. 363) that "we cannot allow the impossibility of rigorous proof to keep us from studying whatever we believe to be important." The book in short is an essay in social criticism, not a study in sociology in the orthodox sense.

A generous admiration for his enterprise, however, must be tempered by a few hesitations. The author's language, for example, is loaded. Members of corporate boards of directors are "commissars", admirals and generals are "warlords", and there is a political "directorate". Mills views the Ivy League and its products with something like a sneer, and for "celebrities" he has little use. He rails against "monstrous decisions" made in an "undemocratically impudent manner," at the "public mindlessness" which permits these proceedings, and at the "organized irresponsibility" it encourages and the "higher immorality" which results.

And even as social criticism the book leaves certain perplexities in its wake. It is surely naïve to suppose, and even more naïve to hope, that the power structure can ever be anything but pyramidal. It is doubtful, in the second place, if Mills has succeeded in proving that members of the small town "aristocracies", the metropolitan "400", the graduates of the Ivy League colleges, the "celebrities", and the "very rich" coincide in any dangerous degree with the top of the hierarchy in the government and in the military forces. At least one reader is not satisfied, in short, that "the élite" are as powerful, or the powerful as "élite", as Mills wants us to believe. In the third place, he dismisses too easily, as "romantic pluralism", the theory of balance which attributes to every group in society a veto over every other and which sees the governmental process in terms of ever-changing juxtapositions of interests, although, right or wrong, David Riesman and David Truman, whom he cites in this connection, would seem to have the better of the argument. Finally, it is far from clear what kinds of decisions the decision-makers make. Institutional trends and ideological shifts may have more to do with them in any event than an amorphous "power elite", very much more in fact than Mills is inclined to concede.

These are only some of the questions which the author's answers leave unsettled. One is confident that he will apply his impressive talent and his trenchant style to their solution in his future publications.

ROBERT BIERSTEDT

THE CITY COLLEGE OF NEW YORK

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Charles Beard and the Constitution: A Critical Analysis of "An Economic Interpretation of the Constitution". By Robert E. Brown. Princeton, Princeton University Press, 1956.—ix, 219 pp. $3.50.

During the first half of the twentieth century the three men who exerted the most profound influence on American historical thought were Frederick Jackson Turner, Vernon L. Parrington and Charles A. Beard. Each was an analytical rather than a narrative historian, and all three advanced such striking theses on such significant subjects that it was impossible for other historians to ignore their work. During their lifetimes their admirers probably outnumbered their critics, but the era of their preëminence has passed, and many of the interpretations associated with their names have been discarded. Turner's frontier thesis has been so thoroughly attacked and revised that its critics have been reduced to criticizing each other. Parrington's approach has in large part been discarded as an oversimplification that tends to obscure rather than illuminate the complexities of the main currents of American thought. Beard has worn better than either Turner or Parrington. Although his views on foreign policy have been subjected to sustained attack and some of the interpretations in his domestic histories have been questioned, it has remained for Professor Robert E. Brown to attempt to demolish in its entirety Beard's most influential—if not his best—book.

In the past, many critics of *An Economic Interpretation of the Constitution* have questioned some of Beard's conclusions while praising the scholarship on which such conclusions rested. Brown begins where such critics leave off, for he is almost exclusively concerned with the question: "Did the actual evidence which Beard presented really justify the Beard interpretation of the Constitution?" (pp. 22–23). To answer this question, he has retraced the ground covered by Beard on an almost line-by-line and footnote-by-footnote basis. His chapters correspond to Beard's and even have the same titles. Within each chapter, after examining the sources of each point made in the corresponding chapter in *An Economic Interpretation of the Constitution*, he comes to conclusions that almost always are diametrically opposed to those of Beard. When Brown has finished his task, he states: "If historical method means the gathering of data from primary sources, the critical evaluation of the evidence thus gathered, and the drawing of conclusions consistent with this evidence, then we must conclude that Beard has done great violation to such method in this book. . . . He proceeded on the assumption that a valid interpretation could be built on secondary writings whose authors had . . . failed to collect the evidence. . . . [He was not] critical of

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the evidence which he did use. . . . Finally, the conclusions which he drew were not justified by the kind of evidence which he used" (pp. 194–195).

In Brown's opinion, the Beard thesis can be divided into "two halves". In one half Beard attempts to show "that the Constitution originated with and was carried through by personalty interests—money, public, securities, manufactures, and commerce," while in the other half he maintains "that the Constitution was put over undemocratically in an undemocratic society" (p. 194). Brown concludes not only that Beard did not substantiate these two interpretations, but also that the evidence needed to substantiate them does not exist. Because Brown refutes Beard on almost every page of this book, it is impossible to summarize his closely reasoned and well-documented analysis. Some points, however, should be mentioned. Brown maintains that American society was essentially democratic in 1787; that Americans, instead of being divided into owners of personalty and real property or into creditors and debtors, were overwhelmingly agrarian middle-class owners of real property; that farmers were not necessarily debtors; that the fact that some delegates owned securities in 1791 does not indicate that they were security holders in 1787; that most of the delegates had larger holdings in realty than in securities; that *Federalist* No. 10, as interpreted by Beard, does not necessarily represent the ideas of either Madison or the other delegates; and that "for all practical purposes there is no correlation between ratification, on the one hand, and realty and personalty, on the other" (p. 148).

It is difficult, if not impossible, to refute the specific points made by the author of this painstaking and admirable study. On the other hand, many readers will undoubtedly have some reservations concerning Brown's sweeping indictment. In the first place, it should be noted in this connection that all of Brown's criticisms will not be entirely new to students of this period. Secondly, Beard himself conceded that his scholarship left something to be desired, for on more than one occasion he stated that his evidence was scanty or that he had used secondary sources. Finally, Beard's over-all approach remains an important contribution to our thinking on the origins of the Constitution. We can agree with Brown that Beard is often inaccurate and that his research was frequently inadequate, but this cannot obscure the fact that to Beard, more than to any other individual, we owe the realization that the Constitution was not created in an economic vacuum.

HAROLD C. SYRETT

COLUMBIA UNIVERSITY

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Henry Watterson: Reconstructed Rebel. By Joseph Frazier Wall. New York, Oxford University Press, 1956.—xvi, 362 pp. $6.00.

For a half century following the Civil War Henry Watterson was a powerful influence in American life as editor of the Louisville *Courier-Journal* and as a politician. No good history of the American scene and institutions can by-pass Watterson, and the compelling need for a biography has long been recognized.

Now, Mr. Wall has produced a full-length biography with which the most discriminating and critical can find little fault. The book is rich in detail but not complex to read; it is sympathetic but not uncritical; it sticks closely to Watterson but deftly lays the historical framework in which he operated; it comes to grips with Watterson's often contradictory personality with occasional brilliant characterization; and it moves fast, revealing at times real literary skill.

The author has no objective, no thesis to prove, other than to write a well-rounded life. But looming up throughout the book are Watterson's consistent efforts at sectional conciliation. These were his main contribution to American life, and at playing the rôle as conciliator he was remarkably consistent. In almost all other rôles he was remarkably inconsistent, changing color about as frequently as personal considerations and a glowing egotism demanded. Yet for all his efforts at promoting a unified nation devoted to business, he was given the name of Marse Henry, symbol of the old South gentlemen and the Lost Cause—the Unreconstructed Rebel.

Although Mr. Wall does not say so directly, one is led to feel that much of Watterson's erratic action in politics was prompted by his egotism, his desire to be recognized at the White House, to be on the inside and fraternize with the political élite. For example, a little more attention and flattery from Cleveland or Wilson might have staved off Watterson's break with them. In politics he bruised easily and healed quickly, and when necessary he could eat political crow.

Watterson idolized Samuel J. Tilden. But as a member of the House, he was a participant in the events which deprived his hero of the presidency in 1876. Watterson in committee at first opposed the Electoral Commission bill, the device by which Tilden was maneuvered out of the high office which he had won at the polls. Being a lone protestant in committee and previously having unintentionally acquired the reputation as a dangerous uncompromising rebel, Watterson supported the bill on the floor and helped scotch the filibuster which, by delaying the election count, might have saved the presidency for Tilden.

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Why did Watterson suddenly reverse his position? Was he taken in by the lobby of railroad and newspaper men bent on trading federal internal improvements to the South for the presidency? Watterson's partner and business manager of the *Courier-Journal* was a member of the small group of newspaper men pushing such a bargain, and a representative of this group wrote that Watterson was the first to surrender to Thomas Scott and the railroad lobby.

Mr. Wall admits that Watterson may have been influenced by the lobbyists but he merges the case of Watterson into the case of all Southern Congressmen and absolves them from any sectional credit or discredit for opposing the filibuster. By analyzing the vote in the Congress on the anticipated filibuster he has made an original contribution. On the other hand he has oversimplified and played down too much the economic considerations lying behind this great compromise.

The author makes it abundantly clear that Watterson's success as a journalist and politician was in large measure derived from the force of his personality—his gregariousness, enthusiasm, and flair for the dramatic. These qualities Mr. Wall infectiously transmits to the reader, but at best his subject does not emerge as a man of much depth and discernment.

EDWARD YOUNGER

UNIVERSITY OF VIRGINIA

James Wilson: Founding Father, 1742–1798. By CHARLES PAGE SMITH. Chapel Hill, The University of North Carolina Press, for the Institute of Early American History and Culture, 1956.—xiv, 426 pp. $7.50.

This is an interesting biography of one of the most important political figures of the early national era. James Wilson's fame as a Revolutionary patriot, founding father and legal scholar has long been somewhat tarnished and obscured—in part because of a faint taint of Toryism during the Revolution, in part because his tangled, greedy and ruinous financial operations succeeded at last in damaging somewhat his reputation for personal integrity. The present work, the first full biography ever published, attempts "to restore James Wilson to his proper place among the great figures of our history."

Wilson was a man of parts in national politics for a generation, and at the same time he was a substantial legal scholar and political theorist. He served as a member of the Second Continental Congress, the Confederation Congress, the Constitutional Convention of 1787, the Penn-

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sylvania ratifying convention of 1788, the Pennsylvania Constitutional Convention of 1790, and as an Associate Justice of the United States Supreme Court. Also, he conducted an extensive legal practice in the Pennsylvania courts and vast and ramified operations as a land speculator. Finally, he found occasion, at one time or another, to pen an important pre-Revolutionary pamphlet on the theory of British sovereignty over the colonies, to revise and codify the laws of Pennsylvania, and to deliver a series of important lectures at the College of Philadelphia on the theory and practice of American law. All this the present author develops very completely and adequately.

A major point of interest in the present work is the author's presentation of Wilson as an early champion of democracy. The matter is admittedly one of some controversy. On a flyleaf is quoted Merrill Jensen's assertion that "George Washington, James Wilson, Robert R. Livingston, John Dickinson, Edward Rutledge, were always conservative in political philosophy and practice," as well as the conflicting assertion of Homer C. Hockett, that "Wilson ranks with James Otis and Thomas Jefferson as one of the great democrats of the formative period of the Republic." Dr. Smith agrees with Hockett; he concludes that Wilson's democratic views represented "his settled judgments, the fruits of his carefully developed 'metaphysic.' "

Dr. Smith finds major evidence for Wilson's democratic convictions in his rôle in the Constitutional Convention of 1787, which he interprets, in part at least, as a struggle between aristocratic and democratic principles of government. He sees in Wilson's powerful championship of direct election of both houses of Congress and his proposal for direct popular election of the president a convincing demonstration of democratic principles. And he interprets Wilson's rôle in the Pennsylvania Convention of 1790, where Wilson championed direct popular election of the assembly, as confirmatory evidence of Wilson's beliefs.

Such an interpretation, this reviewer believes, is of somewhat doubtful validity. In the first place, it ignores the larger aspects of Wilson's political career—his long opposition to the democratic Pennsylvania Constitution of 1776, his very moderate Whiggish position during the Revolution, his conversion from Presbyterianism to Anglicanism, his consistent overweening concern for vested interest in property, his close association with John Dickinson, Robert Morris and other notable conservatives of the day, and his Federalist politics after 1789. Equally serious, it confuses Wilson's powerful nationalism in the Constitutional Convention and his search for an adequate foundation for national sovereignty with support for democracy. Finally, Wilson's rôle in the Pennsylvania

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Convention of 1790 hardly proves much more than that he compromised with certain of his former political adversaries in order to get rid of the obnoxious Constitution of 1776.

A better picture of Wilson appears in the author's analysis of the celebrated lectures on American law. Here it becomes evident that Wilson was essentially a child of the legal and political philosophy of the American Revolution. In addition, Dr. Smith shows very nicely that Wilson drew much of his inspiration from Richard Hooker, that he thus represents in part the introduction of a somewhat conservative Anglican and Scholastic tradition into American legal thought, and that he rejected alike the gloomy class-conscious conservatism of the High Federalists and the agrarian optimism of the Jeffersonians. But all this makes Wilson fundamentally an eighteenth-century constitutionalist with a strongly organic concept of social order, and a prophet of democracy only in so far as constitutionalism does indeed lie at the root of modern democratic political theory.

ALFRED H. KELLY

WAYNE UNIVERSITY

The Economic Thought of Franklin D. Roosevelt and the Origins of the New Deal. By DANIEL R. FUSFELD. New York, Columbia University Press, 1956.—337 pp. $5.00.

Since the federal government, beginning with the New Deal, has increased enormously as a factor in molding the American economy, the economic thought of Franklin D. Roosevelt is an important matter for inquiry. Mr. Fusfeld has meticulously surveyed it up to the point that Roosevelt became President, and has concluded that there was a consistency in Roosevelt's economic thinking. He wishes to counter Richard Hofstadter's analysis of Roosevelt as "the patrician as opportunist", who knew little about economics and had no definite program or underlying economic philosophy.

Mr. Fusfeld does indeed prove that the pre-presidential Roosevelt, like most moderate Progressives of laissez-faire and humanitarian bent, was ready to turn to government intervention when other methods failed. This scarcely budges the theory of Hofstadter (and others) that the key to Roosevelt's thought and actions was more political than economic. Indeed, Fusfeld's careful array of evidence strengthens it. For example, while Governor, Roosevelt as part of his appeal to states'-righters questioned the constitutionality of a federal bill prohibiting interstate shipment of prison-made goods. As Fusfeld demonstrates, under prodding from union leaders, Roosevelt quickly abandoned his states' rights, laissez-

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faire position. On economic matters, Roosevelt almost always did what was politically feasible.

Roosevelt's economic outlook, Fusfeld demonstrates, came out of his *noblesse oblige* Hudson River origins, and his education, both formal and political, in the Progressive era. At Harvard, he avoided courses on economic theory, but elected a number on current problems such as economic concentration. While the professors taught within a laissez-faire framework, they proposed solutions which were at least mildly Progressive. Roosevelt as a young Progressive legislator in Albany and administrator in Washington, took basically this position, although he was very far from consistent on government intervention. Just before the campaign of 1920, according to Fusfeld, either he or his alter ego Louis Howe drafted proposals for the Democratic platform which included an endorsement of government deficit spending as a way out of depressions. Since this and some other planks are at variance with Roosevelt's other statements at the time, and the only copy thus far found at the Roosevelt Library is not labeled as to authorship and is of a type face and on a paper different from anything used by either Roosevelt or Howe in 1920, these almost certainly are not their work.

Fusfeld devotes half of his study to Roosevelt's policies as Governor of New York from 1929 to 1932. This is a wise division of space, since it was as a depression governor that Roosevelt slowly evolved the attitudes and techniques which he brought to the White House. Well into his governorship, Roosevelt was chary about government intervention in the economy. Occasionally in a speech, such as a notable one before Tammany in 1929, he sounded Theodore Roosevelt's old bugle blast for a charge against monopolies—but no charge followed, except against utilities. By 1932, he was taking an advanced position on farm relief, social welfare, and aid for victims of the depression, at the same time that he accepted deficit financing only with great reluctance.

In the campaign of 1932, Roosevelt made a number of delightful speeches into which his adherents could read almost anything they wished. Few at the time besides President Hoover could see the campaign as "a contest between two philosophies of government." In retrospect, Fusfeld agrees with Hoover, and regards the speeches as an outline of the New Deal. This they were, but they were a number of other things also; especially they were good politics. The Pittsburgh promise to balance the budget, to which Fusfeld devotes only two paragraphs, was one of the most spectacular campaign addresses. It as much represented Roosevelt's sober economic thought as did the Commonwealth Club speech on government intervention.

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None of this is derogatory to Roosevelt. Indeed, it was the singular good fortune of the American nation that in time of great crisis, a man of Roosevelt's resilience of mind succeeded a president of doctrinaire rigidity in his economic thinking.

FRANK FREIDEL

HARVARD UNIVERSITY

The Office of Prime Minister. By BYRUM E. CARTER. Princeton, Princeton University Press, 1956.—362 pp. $5.00.

Unrepentant Tory: The Life and Times of Andrew Bonar Law, 1858–1923, Prime Minister of the United Kingdom. By ROBERT BLAKE. New York, St Martin's Press, 1956.—556 pp. $9.00.

Two great difficulties prevent the easy achievement of a classic description of the office of the prime minister. First, the office is a plurality. It is several offices, different offices which by their embodiment in one man give the modern constitution of the United Kingdom its basic character. The prime minister's rôle is much more complicated than that of the president in the United States. He is an elder of the people, one of the chief strategists of his party, an employment agent of the Crown for certain posts both spiritual and temporal, the operator of the cabinet, a mediator with royalty, the occupant of an administrative office (even if it is only that of First Lord of the Treasury), and, increasingly in these days of eminences aloft, something of a diplomat and pacifier. Clearly, a metaphor is needed; but all that come to mind—octopus, hub, kingpin—seem inelegant or inapt. Professor Carter was aware of this problem. To say that at times his study seems to be a set of accurate but disparate essays bound together, and that his brief "concluding observations" fail to establish unity retroactively, is only an obtuse way of expressing sympathy for those men who try to fill the office(s) of the prime minister.

The second difficulty is insuperable. So many of the prime minister's offices are unknown in both common law and the statutes, and so many of his acts are unregulated conclusively by custom, that one is compelled to revert to specific instances. A rough outline of the prime minister's powers emerges, but beyond that, one seems to be dealing with unique events of history rather than with illustrations of an established constitutional system. "The only conclusion possible", comments Professor Carter in one connection, "is that the office cannot be defined; it can only be described in terms of the use to which it was put by different

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individuals of varying abilities, who faced different problems and dealt with different colleagues." And the sad truth is that when political events are rearranged systematically, no matter how ingeniously this is done, they lose enough of their detail and authenticity to make one wonder whether a historical account would not have been better.

This feeling almost becomes a certitude when one reads a book such as Robert Blake's biography of Bonar Law. Although Law was Prime Minister only from October 19, 1922 to May 20, 1923, as early as 1911 he succeeded Balfour as Leader of the Conservative Party. This meant that he participated in that greatest constitutional crisis of this century, the Ireland controversy of 1913–14, that he was in the first wartime coalition and the Dardanelles committee, in the revolt against Asquith, in Lloyd George's coalition, and in the Carleton Club meeting. It was his resignation which provided the occasion for the famous royal choice of Baldwin in 1923. It is unfortunate that Blake's excellent biography was not ready in time for use by Professor Carter. The whole period, 1911–23, is greatly enlightened by it. Indeed, at one point, where the author reveals, contrary to the theories of L. S. Amery and others, that the major factor influencing the selection of Baldwin rather than Curzon was a memorandum handed to the King by Law's private secretary, apparently on his own initiative, the book is astonishing. Bonar Law, unlike Lloyd George and Churchill, was not a flamboyant or even a great political figure; yet this biography, belated though it is, is wonderfully entertaining from beginning to end.

If we forget the problems of its genre, which comparison with Blake's book makes evident, the chief defect in Professor Carter's study—and this is outweighed by its merits—is that, while the social origins and education of the recent prime ministers are mentioned, it leaves no clear impression of the kind of personality, intellect and temper which has enabled men to attain, and to succeed in, this office. There have been thirteen incumbents since 1894; surely this provides enough evidence to support some comment. Despite this, and although the book contains little that will be totally new to those who have read the standard memoirs and biographies, the new works on parties and elections, and Jennings' two institutional studies, it promises to be very convenient. Here, within manageable compass, presented in a clear style, and appraised by a reliable scholar, is almost all the basic information that we have about the office of prime minister.

J. B. STEWART

BARNARD COLLEGE

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The King's Peace, 1637–1641. Vol. I of *The Great Rebellion—1637 to the Restoration.* By C. V. WEDGWOOD. New York, The Macmillan Company, 1955.—510 pp. $5.50.

In this, the first of a series of promised volumes, Miss C. V. Wedgwood turns her considerable literary and scholarly skills to a subject which is in many ways the most absorbing in British history. The Great Civil War which terminated in the execution of Charles I and the Cromwellian dictatorship has had more than an insular significance, for it was the first of the great quadrumvirate of revolutions in the modern Western world. As such, it has become the point of departure for several schools of historiography and the central focus of a whole body of revolutionary folklore second only perhaps to that of the French Revolution. For most English historical writers the Civil War was that turning point in their history when the state, as embodied in the king's person, was limited, however vaguely, in its powers and the rights of subjects were made secure. In this sense, English historical scholarship, generally, has come to reflect the traditional Whig view that limited monarchy is a "good" thing and that royal absolutism was "bad". Later generations have modified or radically altered this view by adopting some variant of the belief that the English Civil War was not a contest between rival systems of ideas but simply an ideologically disguised struggle for power between classes or among groups attempting to control the machinery of government for anything but idealistic purposes.

At the outset Miss Wedgwood makes it plain where she stands. The contest was over principles and about problems that still concern the state in its relations with the individual. The inhabitants of the British Isles in the seventeenth century had to face the ancient dilemma of how far the state might be permitted to rationalize the machinery of government through which it functioned at the expense of all or some of those who made up the society in which the state operated. "The principles for which they fought", writes Miss Wedgwood, "and the problems that they tried to solve are alive today; the conflict between the authority of the State and the liberty of the subject, between public responsibility and private conscience is not, and probably never will be, fully resolved."

By taking this viewpoint Miss Wedgwood announces her own adherence to the Whig tradition. But she is a Whig in modern dress without the presuppositions or oversimplifications that characterized Whig historical writing of an earlier generation. For her there is no blind inevitability in the movement of events toward a preconceived ideal of political liberty.

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Human acts are never de-personalized, and she is always aware that history is, after all, the story of human beings. King Charles is clearly portrayed as more than the symbol of a system of statecraft foredoomed to failure by the relentless grinding of history's millstone. He was also a man, vain, foolish and, perhaps worst of all, lazy, who made decisions, some bad and some good within the context of his own standards, and whose fate was sealed as much by what he left undone as by what he did.

Apart from her sense of the human and the contemporaneous, the value of Miss Wedgwood's work lies also in her historical comprehension. The central fact about the Great Civil War is that it marked an epoch in British rather than just English history. Charles I was the second monarch of Great Britain and Ireland, and though English affairs absorbed much—perhaps too much—of his attention, he had to deal with Irish and Scottish problems as well. In the end, it was the flame of rebellion spreading inward from his outlying dominions, first in Scotland and then in Ireland, that finally destroyed his authority at Westminster. Here, Miss Wedgwood has much that is new and enlightening to say about the causes of the king's downfall, though there are some parts of her narrative that stand in need of further clarification and analysis.

Whatever oversights the specialist or antiquarian might wish to charge against Miss Wedgwood, there is no doubt but that this is history written in the grand manner. This is a work which will be read, and read with pleasure, by those far removed from the guild brotherhood of professional historians. Miss Wedgwood's is a gift that lesser mortals can only envy.

Sidney A. Burrell

Barnard College

Mitteleuropa in German Thought and Action, 1815–1945. By Henry Cord Meyer. The Hague, Martinus Nijhoff, 1955.—xv, 378 pp. 23.75 guilders.

Mr. Meyer has written an admirable book proving that his topic—German designs on *Mitteleuropa*—was of far less intrinsic importance than had previously been assumed. His comprehensive analysis of over a century of German literature on *Mitteleuropa* and of German economic penetration of the vast area from the Baltic to the Bosphorus persuades us that the Germans had no carefully wrought plan for conquest. *Mitteleuropa* became historically important only because the Allies during the First World War exaggerated its significance and allowed the more or less innocent dreams of a few Germans to become the collective night-

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mare of Allied peoples and leaders. In this desperate mood the anti-German tirades of Masaryk and Beneš found a ready and sympathetic echo, and many of the most important post-war decisions reflected this fear. As Mr. Meyer aptly remarks: "The mistaken conceptions and fears of an era, or a people, can be as influential in determining the course of history as political or economic facts" (p. 344).

Before 1871, Germany thought little and did less about *Mitteleuropa*. After 1871, accompanying Germany's massive rise as an industrial Power and her continued military predominance, came the burgeoning, uncoördinated expansion into every corner of the world; Mr. Meyer shows that Germany's economic stake in the mid-European area steadily grew, although the ideological formulation of *Mitteleuropa* still hung on "slender threads". Konstantin Frantz, Lagarde, and a few Germans in the Austrian Empire warned that German power in Central Europe would collapse unless the Germans of that area unified and formed a state which would rule over non-Germans as well. But most *Reichsdeutsche* were satisfied with Bismarck's little Germany and shrank back from renewed involvement with the Austrians, whose dual monarchy was already sinking in crisis and confusion. Under William II's reign—which Mr. Meyer characterizes in a few masterly passages—ideological extravagance kept pace with the undeniable growth of Germany's economic interest in the area. But in that free-wheeling period between 1890 and 1914, *Mitteleuropa* had to compete with the Kaiser's *Weltpolitik* and never achieved high or consistent priority. Even before the war the Western Powers assumed that Germany was plotting a mid-European empire, with the Berlin-Bagdad Railroad as a future life line, whereas in fact Germany was merely pursuing her rather carefree mixture of profit and bombast.

The First World War lent *Mitteleuropa* an immediacy which it had not possessed before. At a time when Germany was the main prop of an alliance of mid-European states, surrounded by hostile Powers in the East and West, and starved by the unexpected British blockade, the dreams of a German-led, if not necessarily German-dominated, mid-European union seemed suddenly to acquire desperate reality. Friedrich Naumann, a pre-war publicist of renown and merit, gave a "soul" to the *Mitteleuropa* idea; to him it was "the fruit of war", the one political promise which could justify the war. His *Mitteleuropa*, published in 1915, swept Germany and spread the compelling vision of a new Central European order, which would unite Austria-Hungary and Germany, reconcile the non-German peoples, and exploit the enormous economic potentialities of the area. Mr. Meyer believes that "Granting Nau-

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mann's failure to evaluate the unfavorable significance of the German economic system for the non-German peoples of Middle Europe, his conception was rooted in the best elements of the European-Christian tradition with its emphasis upon decency, morality, and humanity" (p. 330). This may be excessively charitable: The Western tradition, after all, had come to include certain basic political rights as well. Naumann's vision did not become German policy, and the Pan-Germans, the government, and most of the business men pursued different goals, some of which Hans Gatzke has described in his excellent *Germany's Drive to the West*. The Austrians were reluctant as well, and Austro-German relations during the war were so poor as to dash any hope for the kind of spontaneous, war-bred union that Naumann had envisioned. Only the Western Allies embraced his *Mitteleuropa* as a manifesto of Germany's true war aims.

Actually *Mitteleuropa* faded quickly. For a brief moment it was supplanted by the lure of a defeated Russia and Ludendorff's ambitious *Ostpolitik;* then it was shattered by Germany's defeat and the collapse of all her hopes and illusions. In the final chapter Mr. Meyer sketches the retreat and mutation of *Mitteleuropa* and its reëmergence under the Nazis in the 1930's. Admitting the conjunction of a great many mid-European ideologists of the post-war period with the Nazis, Mr. Meyer nevertheless argues that the Nazi ideal of *Gesamtdeutschland*, to say nothing of the reality of Nazi conquest, had little in common with the earlier *Mitteleuropa*. Whether German hopes for a new Central Europe will revive is an open question; with the *Volksdeutsche* expelled from much of the area, German grievances are greater than ever before, but the chances for a German-inspired new order in *Mitteleuropa* seem very slim indeed.

Mr. Meyer's book is more than an authoritative study of a tangled and complex subject; it demonstrates by its excellence the potentialities of the scholarly monograph. His bibliographical essay at the end is marked by the same virtues which pervade the entire book: a thorough mastery of the widely scattered material, a critical maturity in dealing with it, an imaginative and broad conception of relevancy, a firm grasp of the relation of ideas to events, and above all a fine historical sense which gives the book philosophical depth and protects it from excessive parochialism, and lifts it above the average historical study of today.

FRITZ STERN

COLUMBIA UNIVERSITY

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The Holstein Papers. Volume I: *Memoirs and Political Observations.* Edited by NORMAN RICH and M. H. FISHER. New York, Cambridge University Press, 1955.—xxvii, 216 pp. $5.00.

The announcement that the private papers of Friedrich von Holstein, captured by Allied forces with the files of the German Foreign Office in 1945, were to be published aroused considerable interest among historians. It was assumed that any number of locked doors would now spring open, for "the Grey Eminence" had been privy to all the secrets of imperial policy and had probably written some of them down. Now that the first volume of the papers has appeared, it can be seen that those expectations were unwise. This volume tells us a good deal about Holstein himself (although nothing that will materially change the accepted picture of the man), but it does not tell us much—at least, not much that we can believe—about anything else.

These "memoirs" are in fact a series of short essays and random jottings put down on paper at various time in Holstein's career. They cover the whole period of his active life, from the time when he was serving under Bismarck in the Petersburg legation in the 1860's until the days, after his retirement in 1906, when he maintained contact with Bülow and Kiderlen-Wächter and, presumably, acted as an unofficial consultant on foreign affairs. But they do so very generally, very unsystematically, and with many gaps. There is practically nothing, for instance, on the Moroccan crisis of 1905–6, which precipitated Holstein's fall; and what there is, is not informative. They are repetitious. In respect to style, they are inelegant to the point of clumsiness; in respect to content, they are trivial to the point of banality. They are filled with anecdotes, but not very good ones, for a good percentage of them are pointless, and some are quite unbelievable.

Even the worst of the anecdotes, however, throw some light on Holstein's character. Referring to the stories Bismarck used to tell, Holstein writes: "They were always stories in which Bismarck figured as the hero, while the other characters usually appeared in a ridiculous, and at times a despicable, light." This is an accurate description of Holstein's stories as well. They seem generally designed to prove someone a fool or a knave; and, in the course of these pages, practically all of Holstein's associates—Schlözer, Abeken, Bucher, Radowitz and countless others, to say nothing of Bismarck himself—are placed in one or the other category. It does not take much of this to convince the reader that, whatever else Holstein might have been, he was a petty man and a vindictive one.

And, of course, an unreliable one, to boot. What is one to make of the

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statement that Bismarck could have supported Russia in the Russo-Turkish war "by a mere diplomatic flick of the fingers, without the slightest risk to Germany" and that, in calling the Berlin Congress, "he allowed himself to be guided not by political but by personal motives"? Or Holstein's insistence that Radowitz, one of Bismarck's most gifted juniors, had no talent, "at no time enjoyed Bismarck's confidence", and made his way because he possessed a secret hold over the Chancellor?

The fact is that Holstein's personal animosities are so strong that it is impossible to place much reliance on his judgments or on the evidence—generally private conversations which cannot be corroborated—which he adduces to support them. Anyone who has read the memoirs of Radowitz, for instance, will react to Holstein's remarks about the personnel and administration of the Foreign Office in the '70's with the greatest of skepticism. And since, in dealing with matters of high policy, Holstein is so often and so frantically defending or obscuring his own activities—as, for instance, in his account of Bismarck's dismissal and the break with Russia—it is difficult to agree with the editors' introductory references to his "selfless devotion" to Germany's national interests. One does not get the impression from these pages that Holstein ever forgot his own interests for very long.

Messrs. Rich and Fisher have done a commendable job of editing these papers, even if they seem needlessly and even incautiously protective of their subject in some of their opening statements. It cannot have been easy to bring these memoirs together, to eliminate the more jarring repetitions and to create a readable text. They have succeeded and have enhanced the value of their product with careful and helpful notes and appendixes. Their subsequent volumes will include Holstein's diaries, which apparently cover the years 1882–1888, and "a large proportion of the letters written by Holstein". These may be meatier than the present volume.

Gordon A. Craig

Princeton University

The Dreyfus Case: A Reassessment. By Guy Chapman. New York, Reynal & Company, 1955.—400 pp. $5.00.

The Dreyfus Case is a source of perennial interest both to those who are fascinated by "whodunits" and to those seriously interested in the understanding of a most significant period of French history. The present reviewer has long hoped that some one would give us a book which would both unravel the remaining elements in the "detective story" and place the controversial "Affair" in proper context in the history of the period.

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The dust cover on Mr. Chapman's work carries a series of panegyric reviews which suggest that this is the book. This review must, therefore, be largely in the nature of a minority report.

The story of the unraveling of the Case itself is told with a verve and ability which cannot fail to hold the rapt attention of the reader. This is the strongest element in the book. Mr. Chapman has obviously surveyed the evidence with more energy than his predecessors, and his account is the most searching we have had to date. It is in the painstaking investigation of detail and the careful fitting together of refractory elements that the writer is at his best. Yet even this part of the book is marred by a lack of anything like persistent annotation: the book abounds in such totally unsupported statements as "There is not a shred of evidence to suggest that they [Dreyfus' superiors] were swayed by other motives than the efficiency of the service" (p. 138). Much evidence, such as the famous Picquart interview with Gonse, runs quite to the contrary. In passing, it should be noted that the author appears not to have consulted the materials in the *Archives Nationales* in Paris, which do make some additions to our knowledge, despite the fact that most of the documents have previously been published.

With the broader implications of the Case, with Mr. Chapman's generalizations and conclusions as to its impact on France, we reach less stable terrain. That "anti-semitism played little, perhaps no, part in the arrest of the unhappy victim or in his trial" (p. 9) is a statement inconsistent with his own repeated admissions concerning the anti-Semitism of Sandherr (p. 49), Cordier (p. 50), DuPaty (p. 75), Picquart (pp. 65 and 117), and others. Mr. Chapman would have seen this whole problem in quite different perspective if he had consulted the authoritative and well-known work by Robert F. Byrnes on anti-Semitism in France from the War of 1870 to the eve of the Dreyfus Affair.

The author's defense of the Army, carrying us far toward the other pole from the Dreyfusard interpretation, will inevitably evoke much dissent. His statement (p. 358) that Sandherr, if he had doubts of Dreyfus' innocence, "would never have rested until he discovered the real traitor" is an elementary misinterpretation of quite human psychology. When the anti-Semitic Drumont broke the story, Mercier and the General Staff were compromised for their overhasty action in Dreyfus' arrest. The quite natural, even though indefensible, reaction of Sandherr and his colleagues was then to see Dreyfus condemned and to defend themselves and the hierarchy at all costs. This they proceeded to do, *inter alia*, by feeding irrelevant documents to the court martial, which were so secret they could not be shown to the defense! The attitude of various Army officers during these years is intelligible to all

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familiar with the way in which any hierarchy—political, military, or other—operates, but the prejudices, heavy-footed mistakes, misplaced loyalty, "laughable" security system (p. 49) and persistence in error are elements of weakness for which the Army must necessarily accept responsibility, and from which, alas, most unfortunate results flowed.

The author is preparing a general history of the Third Republic. He might have done well to have waited to produce the present book until he had completed his study of the broader setting, a task which would doubtless have given him better perspective on many problems with which he deals. And yet in spite of the negative comments of this review, Mr. Chapman's book has contributed importantly to the understanding of this tangled story and will necessarily constitute a point of departure for further studies.

Donald C. McKay

Amherst College

Toynbee and History: Critical Essays and Reviews. Edited by M. F. Ashley Montagu. Boston, Porter Sargent, 1956.—xiv, 385 pp. $5.00.

The social scientist has one clear advantage over his colleagues in fields like English or comparative literature. The moment a book becomes a best seller, it becomes important for the student of public opinion; whether it is a great book, a classic for the future, even whether it is a good book or a true one, are questions the social scientist can at least postpone, and may even dodge. The fact that thousands have bought, and possibly even read, a book makes that book one he cannot reasonably neglect.

Toynbee's *Study of History*, especially in the essentially faithful, if aesthetically less interesting, one-volume redaction by D. C. Somervell, has been literally a best seller. A. J. P. Taylor, in the book under review (p. 115), is being very donnish, unkind, and of course inaccurate when he asserts that the first six volumes of Toynbee "rank second only to whisky as a dollar-earner." Still, Toynbee's great effort to settle man's fate has got inside a good many minds and hearts, and what it has done there is worth our trying to understand.

Something of the sort has been Ashley Montagu's aim in compiling this very useful and interesting volume. He has set himself, not to weigh Toynbee's influence, which is a difficult if not impossible task, but to put before anyone interested in Toynbee a sampling of all sorts of critical opinions of his big work. The range is pretty much that of the full spectrum, from idolatry to detestation. Many of the essays are

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reviews, especially those of 1954 and 1955 when the last four of the ten volumes of *A Study of History* appeared. But others are general critical surveys of Toynbee's work, and of Toynbee the man. In bulk, hostile or at least questioning criticism predominates, but this is probably a fair reflection of the actual written comment on Toynbee Mr. Montagu has done a very equitable job of editing. He has not stacked the cards against Toynbee.

There are twenty-nine contributors, including Toynbee himself, who is allowed to explain what he is trying to do. Selection of any of these contributors for special attention is somewhat invidious, for they all have something to say, and they all go to make up the full sample. The harshest criticism of course comes from Toynbee's own British colleagues among the professional historians, A. J. P. Taylor, Hugh Trevor-Roper, Geoffrey Barraclough. Toynbee was trained as a historian, especially of the Graeco-Roman world, but ever since the first three volumes of the *Study of History* appeared in 1934 his professional colleagues have felt that he has betrayed their standards by seeking an impossible order in history, by attempting that monster, a philosophy of history. The kindest critics are those, like Tangye Lean of the British Broadcasting Corporation, whose interests turn toward the great public, or those, like Hans Kohn, who are of a kindly disposition anyway. The political scientists in the collection—George Catlin, Ernest Barker and Hans Morgenthau—are much more judicious, well-balanced, and penetrating than the majority of the historians. The close specialists—W. den Boer on classical history, Wayne Altree on Chinese history, Gotthold Weil on Islam, O. H. K. Spate on geography—find Toynbee generally wrong about their specialties, but they are not quite as ill-tempered as the more general historians. The Dutchman Pieter Geyl, perhaps the best-rounded of historians to condemn Toynbee, is represented by an excellent essay. Pitirim Sorokin and Rushton Coulborn, both of whom really feel that what Toynbee is trying to do is worth doing, have discerning contributions in which praise and blame are well mixed. Edward Fiess concludes the collection, not inappropriately, with an essay on "Toynbee as a Poet".

This book will settle nothing, not even Toynbee's reputation in the contemporary world. But it is an admirable introduction to the study of the very varied reception Toynbee's work has had, and it suggests the possibility that a similar collection of the full range of critical comment on any seminal modern writer—say Freud, or Keynes, or Pareto—would be most useful.

CRANE BRINTON

HARVARD UNIVERSITY

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Foundations of the Conciliar Theory: The Contribution of the Medieval Canonists from Gratian to the Great Schism. By BRIAN TIERNEY. New York, Cambridge University Press, 1955.—xi, 280 pp. $5.00.

Mr. Tierney has examined the constitutional theories of the medieval church as developed by the canonists. The first part of his study treats Decretist theories of church government from about 1140 to 1220. The second part deals with the ecclesiology of the thirteenth-century Decretalists. The third part examines the development of conciliar theories during the fourteenth century, ending with a chapter on the famous canonist Cardinal Zabarella, who played so significant a rôle at the Council of Constance. Mr. Tierney's book is illuminated by lengthy analyses of the works of particularly significant figures: Hostiensis, William Durand the Younger, John of Paris, and others. His presentation is lucid, elegant and witty.

Mr. Tierney makes his most significant contribution by telling of the juristic background of the conciliar ideas put into practice during the meetings of the fathers at Pisa, Constance and Basel. He reminds us that the constitutional supremacy of papal monarchy was not the only argument advanced by medieval canonists, and that there was a strong tradition among them stressing the religious and constitutional limitations of papal power. He shows us that the church fell back upon this tradition during the agony of the Great Schism and that it enabled the clergy to reunify Latin Christendom at the Council of Constance.

Few will disagree with Mr. Tierney's main thesis. Thanks to his diligence, historians now know that the canonists played a great part in developing the conciliar idea. But, it seems to me, this very real service ought not encourage Mr. Tierney to overstate his case. To him, the conciliar idea is simply a straightforward constitutional conception that found its first and best expression in the writings of the canonists "rather than in the *Streitschriften* of the imperial publicists or the constitutional examples of secular states."

For myself, I am not inclined to quarrel with Mr. Tierney's attack upon Figgis' notion that the Conciliar Movement was largely an imitation by the church of the contemporary Estates Movement in the secular states. Still less do I enjoy the implications of the corporation theory of the great Gierke that, in a sense, made Figgis' argument possible. Important though secularism and the secular state were during both the Great Schism and the Conciliar Movement, it seems to me that they worked within the ecclesiastical order itself and made use of the ideas

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and institutions found therein. In what may be called the infant age of the modern secular state and secular intellectualism, it is unlikely that the church sought to solve its problems by simply aping secular institutions. It is hard to believe that pupils teach their teacher more than they learn from him.

But the publicist question is a different matter. By *Streitschriften*, Mr. Tierney refers to the works of Occam, Marsiglio, and others of their stripe. It may be satisfactory to minimize the significance of the publicists if one defines the conciliar idea as being simply the superiority of a council representing the whole of Christendom over the papal monarch. But, even admitting this definition, the position seems to be open to some criticism. Although a dangerous source to use, Marsiglio is actually quoted by a conciliar publicist as famous and as active as Dietrich of Niem. Indeed, to put the shoe on the other foot, it would be stimulating to know how canonistically orthodox much of Marsiglio's thought may have been.

Moreover, there is no reason to accept the definition of the conciliar idea as a purely constitutional conception—any more than there is to define contemporary democracy as simply being the rule of the majority. In his brilliant sketch of William Durand, Mr. Tierney himself gives a much richer definition of the conciliar idea. William's "work, with its appeals for radical reform of the Church 'in head and members,' its proposals for regular meetings of General Councils, its blistering denunciations of venality and corruption in the curia, strikes for the first time the authentic note of the Conciliar Movement properly so called." Indeed, Mr. Tierney is obliged to fall back upon two publicists or non-canonists to show the development of the conciliar idea. John of Paris and William Durand are key figures in his history. Implicitly, I feel, so also are Occam, Marsiglio, and the other publicists both Imperial and French. It is true that most and probably all of these figures were deeply influenced by the ideas of the canonists, but they were still primarily publicists or writers who sought to influence the heads of secular government and the leaders of the clergy.

In conclusion, while I am very grateful to Mr. Tierney for having disclosed the significant contribution of the canonists to the conciliar idea, I feel safe in rejecting his desire to set them above the heads of the thinkers and publicists who used them and whose polemical works—despite his express disclaimers—must surely have influenced the canonists themselves. What convinces me of the soundness of my opinion in this matter is the way the author describes the Conciliar Movement. To him, the crisis of the Great Schism was resolved in the restoration of

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church unity at the Council of Constance. The restoration was achieved by the application of sound principles of good administration discovered by the medieval canonists. After Constance, the unity of Christendom was to be shattered again and decisively—in spite of the existence of the same sound principles. I submit that this analysis lacks a sufficiently comprehensive theme to bring together the three decisive ages in the rise of secularism: the Great Schism, the Conciliar Movement, and the Reformation.

John H. Mundy

Columbia University

The Pattern of World Conflict. By G. L. Arnold. New York, The Dial Press, 1955.—vi, 250 pp. $4.00.

This is a provocative and ambitious book by the editor of the British periodical *The Twentieth Century*, who has strong convictions on what ails the Western world. The gist of Mr. Arnold's analysis is that the West will be unable to stand off Russian imperialism or match Soviet efforts in controlling the process of economic and social development in the underdeveloped countries, if it continues to cast its foreign policy in the traditional molds of either American-type laissez-faire liberalism or British-type democratic socialism. A successful counterthrust against the dangers enveloping the Atlantic nations will require them to submerge these liberal and socialist attitudes in a new and common political-economic outlook, operating with concepts derived from their experience with national planning and government intervention.

The special bête noire of Mr. Arnold is laissez-faire or free-trade liberalism. He holds it responsible for many of the world's ills during the inter-war period, and believes that nostalgic liberal utopianism blinded the Western world to the realities of life at the close of the Second World War. Such limited progress as was subsequently made in the Truman administration toward a realistic acceptance of the necessity of economic planning of the international order was "blotted out in the general back-wash of obscurantism that carried the Republican party to power in 1952." In Mr. Arnold's view, "one thing is certain: as long as freedom is identified with 'free enterprise'—i. e., with the untrammeled rule of market forces—no amount of propaganda will halt the march of totalitarianism."

International free trade, according to this book, has been made obsolete by the revolutionary and overriding conditions of the twentieth century. Apart from the menace of Soviet expansionism and its rapid economic

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growth, there is the determination of the vast, populous backward areas to achieve accelerated economic development, and the strong temptation to do so by revolutionary means. There is also the general conviction in the older industrial societies that the maintenance of full employment conditions takes precedence over all other economic objectives.

If American infatuation with "free enterprise" is pictured in this book as a dreadful case of arrested development, the prospects for democratic socialism of the British Labor party variety are scarcely any better. Mr. Arnold speaks of "the almost total failure" of the British experiment in socialism from the standpoint of production, judged by the standards of achievement attained in the U.S.S.R. and the United States. With respect to the great unsolved problems of aid to backward areas, British socialism's dominant outlook remained "obstinately insular, parochial, and utilitarian. . . . It is not a mentality well suited to the demands of the twentieth century." According to Mr. Arnold, Western socialism's basic sin is its leveling spirit. National planning demands special encouragement to its managers and technicians similar (though not identical) to those obtained by entrepreneurs in capitalist society.

Though the book weights economic policy heavily as a vital element in the West's chances to maintain itself in a period of peaceful coexistence, the question is, not what economic policy will yield an optimum economic result to the countries concerned, but rather what economic policy will gain the good will and approval of (1) the present intellectual leadership of the backward areas and of (2) dominant political groups at home. The first type of question is by-passed, perhaps because it suffers the fatal defect of guilt by association with nineteenth-century modes of thought, and hence deserves to be ignored in favor of more realistic questions about ways and means of appeasing the politically powerful at home and abroad. If this should possibly be the basic test to be met by economic policy in a revolutionary age, it may perhaps be asked how the community will then be protected from the greed, prejudice and stupidity among these not-to-be-gainsaid nationalist élites.

If, for the sake of a "realistic" foreign policy, we must be willing to recognize and act upon "the need to strengthen the state", as Mr. Arnold contends, is it quite beside the point to ask how we shall deal with such a question as R. H. S. Crossman insistently raises in his recent Fabian tract on "Socialism and the New Despotism", when he concludes his analysis of England's socialist experience by stating flatly that "the modern state, with its huge units of organization, is inherently totalitarian, and its natural tendency is towards despotism"? In Mr. Arnold's book this question goes begging.

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Mr. Arnold writes with a fine flair for the essential problems and makes expert use of the wide variety of source materials at his command. His essay is convincing in its argument that a mere maintenance or reaffirmation of received doctrine will not suffice if the Western community is to master the problems of the present, even though he is, in this reviewer's judgment, much too facile in his wholesale rejection of whatever seems to have a relationship with the nineteenth-century international system. It is valuable also in demonstrating the imperative need for a positive and agreed policy on the part of the Western world.

Max Gideonse

Rutgers University

Russia and America: Dangers and Prospects. By Henry L. Roberts. New York, Harper and Brothers, for the Council on Foreign Relations, 1956.—xxxvi, 251 pp. $3.50.

John J. McCloy, in a substantial and thoughtful foreword to this book, stresses the heavy responsibility which rests today on the leaders of our government and of our political parties to clarify American foreign policy. It was with this responsibility in mind that, in the spring of 1953, a number of academic specialists on Russia met at the Council on Foreign Relations with prominent businessmen and former United States government officials to consider the complexities of American-Soviet relations and to appraise the effectiveness of several policy alternatives. This study group continued to meet over a period of two years, assisted in its task by a research staff under Professor Henry L. Roberts of Columbia University. Roberts was then given the difficult assignment of exploring the implications of what had been said by the discussants and of developing conclusions relative to an effective American policy toward the Soviet Union. *Russia and America* is the author's answer to this challenge.

The book is organized in three parts: "The Nature of the Problem", "American Policy Requirements", and "Areas of Conflict".

In discussing the nature of the problem, the author concedes the existence of many "normal" or continuing problems involving Russia and the United States. But, he argues, the combined impact of two new factors has created a situation where the traditional tools of analysis will often fail us. These factors are: Soviet communism, a formidable and contagious type of totalitarianism, determined to extend the area of its domination and inspired by a spirit of relentless hostility toward the outside world; and the appearance of atomic and hydrogen weapons which pose unprecedented strategic and political problems.

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Against this background Roberts analyzes the strengths and weaknesses of the two antagonists. His conclusions presumably reflect a consensus of opinion among the study group's specialists.

American policy in the novel situation should pursue, the author reasons, two main objectives. We must prevent at whatever cost the world-wide imposition of Soviet communism and reduce the chances of general war. This must not prevent us, however, from maintaining the ability to react effectively toward and create possibilities for resolving the present conflict. Translated into action this spells: opposition to any further territorial expansion of the communist system; maintenance of strong alliances, and further development of our military, economic and political potential.

Both extremist solutions, preventive war and withdrawal of American commitments in Europe and Asia, are rejected by Roberts as denying essentially the value of political, economic and social action in solving international crises and, in the latter case, as involving an irrevocable loss of the power of decision.

Within this framework of policy requirements, the author specifically examines the major issues encountered by the American policy-maker. The lessons derived from this analysis are then applied, in the book's third and last section, to "areas of conflict": our direct relations with the Soviet Union, Germany, the Eastern European satellites and Communist China. In this context, the reader will perhaps miss a discussion of the non-committed or wavering underdeveloped areas of the Near East and Africa.

Finally, the author presents his program together with some over-all conclusions. The proposed program contains such familiar points as the maintenance of a balanced military force, the development of our and our allies' economic strength, support for the non-committed nations, and so on. As the author himself admits, none of these prescriptions is new. But this very fact confirms the reviewer's feeling that American policy toward the Soviet Union has generally followed a path considered correct by those best qualified to judge. If we have suffered reverses and experienced some disappointments, this may be ascribed to a lack of effort, consistency and coördination or to a set of decisively unfavorable local conditions rather than to any basic misreading of the situation.

A somewhat unsatisfactory organization of the content and a certain lack of directness, perhaps unavoidable in a work which attempts to reflect a consensus of opinion, detract only slightly from the value of this lucidly written and tightly reasoned book. The reviewer at least knows of no other work examining as dispassionately the many aspects of one

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of the most complex problems ever faced by any nation. This book deserves many readers. By stimulating public discussion it could greatly contribute to a wider awareness of policy requirements and thus indirectly facilitate the task of the policy-maker.

PAUL F. LANGER

UNIVERSITY OF SOUTHERN CALIFORNIA

The Changing World of Soviet Russia. By DAVID J. DALLIN. New Haven, Yale University Press, London, Oxford University Press, 1956.—ix, 422 pp. $5.00.

The author, an eminent expert on Russian affairs, surveys many aspects of the "changing world of Soviet Russia". He begins with the social structure of Soviet life and shows how the Soviet state started with equalitarianism which, however, was soon abandoned and no elimination of classes was achieved. As to the present, the author recognizes and analyzes four classes of Soviet society: government employees—the upper class; workers, rural and urban; peasants; and forced labor. With regard to workers, he refutes as sheer propaganda the Soviet official figures according to which real wages were five times as great at the beginning of World War II as on the eve of the First World War, and considers the extremely high percentage of female workers in the U.S.S.R. (second only to that in China) as a fact which throws more light than any statistical data on living standards of Soviet workers: without the increasing labor of women and juveniles, the workers could not exist at all. The author's assertion is supported by recent Soviet minimum-wage legislation, from which it follows that millions of Soviet workers have until now been receiving less than 300 rubles a month.

Regarding the harsh labor law of June 1940, which inflicted criminal punishment for unauthorized quitting of work, the author writes that the law was not repealed and "there is apparently no intention of repealing it" (p. 103). In this respect Mr. Dallin's prediction turned out to be wrong: the law was repealed on April 25, 1956.

In Mr. Dallin's opinion the consequences of the revolution have been particularly tragic and disappointing for the peasantry, with regard to their well-being and political aspirations; but despite their desperate position, the peasants will not initiate domestic upheavals because they have "neither the strength nor the ability nor the experience for any political initiative" (p. 126).

The improvements in conditions of life in labor camps, especially after Stalin's death, are attributed by the author to two factors: the necessity of preservation of manpower, which had greatly diminished because of the internal policy of the thirties and World War II, and the flood of

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indignation abroad provoked by the forced-labor system. However, the rôle of the second factor does not follow from the author's narrative: he points out that the improvements were put in effect for able-bodied persons only, not for invalids and aged prisoners. This could not have taken place, had the improvements been dictated by indignation abroad. This indignation, the author writes, started in 1947–48; why, then, did not the Soviet government pay serious attention to it until after Stalin's death in 1953? Although the conditions of life in labor camps have somewhat improved, the author does not expect that the forced-labor system will be abolished in the Soviet Union: it is still too important for Soviet economy. In support of this assertion, the author quotes an MVD general who, announcing the reforms to Vorkuta camp inmates, said: "We, the administration, understand you perfectly: you want your freedom. But I beg you to understand us as well: we need the coal" (p. 168).

To the new intelligentsia, which the author does not consider as an individual class of society but identifies with government employees, he assigns a decisive rôle in the internal changes confronting Russia. In his opinion, the intelligentsia comprise the only great social force capable of initiative and activity; although they do not have political leadership, they are the dominant element in the social life of the country (p. 4).

Reviewing the entire complex of Soviet foreign policy, the author emphasizes the two aspects of the Soviet government: a national government on the one side, and a régime guided by a political party with its specific goals and philosophy, on the other; sometimes they coincide, sometimes they conflict. "Today the old world-revolutionary trend, although dimmed and anemic, still prevails. As new tendencies crystallize, the two components of Soviet policy—Russian national interest and Communist *Weltanschauung*—will tend to become divorced in Soviet minds and actions. In the end the first must prevail, though not without grave internal crises" (p. 350). Of course, only future history can prove the correctness or the falseness of this assertion.

The book also analyzes such aspects of the Soviet system as the history and development of the Communist party, the relation between the army and the secret police, and the new religious policy.

It is regrettable that the author does not give precise sources of his quotations. On the whole, this is a very interesting and instructive work, with a wealth of information supported by statistical data and diagrams, which should be read by every serious student of Russian affairs.

SAMUEL KUCHEROV

WASHINGTON, D. C.

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The Balkans in Our Time. By Robert Lee Wolff. Cambridge, Harvard University Press, 1956.—xxi, 618 pp. $8.00.

Robert Lee Wolff, who "is a Byzantinist by early training and primary orientation", gives a definite impression of finding his task of handling the past and most recent Balkan history not only hard but more than complicated. The very fact that the publication is the last in the "American Foreign Policy Library" series, all the previous thirteen volumes of which had been entitled *The United States and . . . (Russia, Britain,* etc.), while Wolff's volume does not use the "United States" in the title, is an indication that the author was forced to give up such a novel and fertile theme and had to cover the same ground that was cultivated by his numerous predecessors. Furthermore, although Wolff's title features "Our Time", the complexities of Balkan history have forced him to devote the first hundred pages to historical roots and legacies. He has focused his treatment on Yugoslavia, Rumania, Bulgaria and Albania. His explanations for underplaying Greece and Turkey (pp. 7–9) are artificial and unconvincing and he fails to acknowledge the many academic arguments which had been agitating numerous Balkan and European scholars for more than half a century.

The author is on much safer ground when describing the war years (since 1939)—giving numerous details how the Communists took over; showing the changing economy of the Balkan countries from the fall of 1944 to June 1948; and analyzing the development of the Soviet-Yugoslav dispute and Yugoslavia's break with the Cominform. The last portion of the book is devoted to the political life in the Balkan satellites since 1948, the Balkan satellite economies, the communist operation of "The Soul and the Mind" (Religion, Education and Scholarship, Culture, and Literature), and "The Yugoslav Exception". The "Epilogue" discourses on "The Immediate Past and the Foreseeable Future". Wolff's conclusions are that "In July, 1955, the best prospect for a restoration of liberty in the Balkan countries appeared to lie in a possible change within the Soviet Empire itself. . . . The chances for a liberalization of tyranny in the Balkan satellites seemed remote indeed. . . . Should the Russians withdraw, Washington would then have to play a large part in protecting these countries against the ambitions of Tito" (p. 587).

Although the later sections are loaded with valuable material, Wolff's total contribution is undistinguished. The total impression is one of flatness and haziness, the result of his citing numberless facts without showing significance and relations; and there is little here that is not already known to the specialist in the region. The general thesis, es-

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pecially, is geopolitically faulty in its insistence that only four nations should be featured in the Balkans; the resulting characterizations are often structurally faulty and apt to be one-sided. At best, the volume is a sort of a minor encyclopaedia on four Balkan states, characterized by an overabundance of material (often not too well digested) and loose writing. Unfortunately, it falls far too short of a careful and authoritative treatment which the title would lead us to expect.

JOSEPH S. ROUCEK

UNIVERSITY OF BRIDGEPORT

An Economic Survey of Communist China. By YUAN-LI WU. New York, Bookman Associates, Inc., 1956.—x, 566 pp. $12.50.

Yuan-li Wu presents in this book an excellent and dispassionate analysis of economic developments in Communist China. Dr. Wu was trained in the London School of Economics and brings to this study not only his training as an economist, but also a comprehensive understanding of the Chinese economy before the Communist conquest. He has been able to take the numerous official reports and other Communist publications and to extract from them the elements of truth that these reports necessarily carry, measuring them with understanding against the pre-1949 economy. He writes well, and the complicated story unfolds swiftly and interestingly. The task has been a difficult one, for it has been necessary to handle an enormous amount of confused and confusing material, to weigh it against the known facts and to set up warnings for the unwary reader.

There are fourteen chapters, closely annotated, and a selected bibliography. It is thus possible to judge in detail the sources upon which the author's judgments are based. The book begins with a statement of the purpose and nature of the study and the basic elements of the communist system. Chapter two provides a summary of the background of resources and the economic heritage on which the new régime has built the present structure. The story of communist development begins with an account of the methods that were used to bring about currency and price stabilization after the fall of the Nationalist Government and outlines the purpose and scope of the government's fiscal policy.

The next two chapters are devoted to an account of the program of land redistribution, its implications to the peasants and to the government, its significance in agricultural production and an appraisal of the program for agricultural self-sufficiency. A description of the govern-

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ment's policy of industrialization, planning and socialization is followed by an analysis of the extent of industrial recovery, new industrial developments and the basic elements of the Five-Year Plan. The key industries upon which the success of the industrialization program hinges are discussed in some detail. These include the major sources of fuel and power, producer goods industries, and cotton textiles and food processing in the consumer-goods group. The use of forced labor and of mass labor projects is described and appraised in relation to the philosophy of the Communists and their economic and political objectives; and there is a revealing discussion of the functions of labor organizations under the Communist régime and the system of wage payments that is used.

The rôle of transportation and domestic trade is analyzed in relation to the physical facilities, the structure of freight rates, and the organization of large-scale government purchasing and distributive channels. In this chapter, it is interesting to note that, although priority has been given to railway development with considerable publicity, there has been limited new construction and for the most part it has been based on plans and construction started by the Nationalist régime. The Communist emphasis has been upon political and strategic considerations—shorter routes to Russia and the tying together of the present network for long-distance traffic.

The theme of complete government control of all economic activity that runs through the book is again underlined in the chapter on the comprehensive monetary and banking control system. The final chapter before the Conclusion is on foreign economic relations and the significance of Russian aid and trade.

The author believes that economically a great deal has been accomplished by Communist China, but at a very heavy cost in human lives and happiness. He thinks this accomplishment owes much to the existing productive structure that the Communist régime inherited. The big test lies ahead as new ground must be broken. There is an apparent desire to shift the economic center from the Yangtze basin to the North. Manchuria is still the major industrial center, but plans for development emphasize the Northwest. The projects for Manchuria's development have not gone beyond the completion of the Japanese plans of the past.

Dr. Wu says, "there is no doubt that the Communist Chinese economy cannot support the demand on its resources that an all-out war would make." But he warns the West against complacency. A serious danger, he feels, is that the economic system and pattern of development may

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appear to point to an effective way for industrialization and for the enhancement of national prestige, and the remaining underdeveloped countries of Asia may be led to believe there is no other alternative. In China's present relations to the Soviet Union, he sees no possible hope of Chinese Titoism.

JOHN E. ORCHARD

COLUMBIA UNIVERSITY

Hands Across Frontiers: Case Studies in Technical Cooperation. Edited by HOWARD M. TEAF, JR., and PETER G. FRANCK. The Hague, Netherlands Universities Foundation for International Cooperation, 1955. Distributed in United States by Cornell University Press, Ithaca.—579 pp. $5.50.

International relations take many forms. Nations fight, make military alliances, maintain diplomatic relations, establish organizations to forward their mutual interest, trade, and formalize trade and economic agreements. Now the nations have technical assistance agreements. In all these relationships there is a continuing interchange of the knowledge of the ways people live. There is much borrowing back and forth.

Formalizing the governmental activities which result in the conscious transfer of technical knowledge is a well-developed policy which seems to have waited for President Truman's Point Four though there are many previous examples. Such policies have also been worked out in United Nations procedures, the Colombo Plan and numerous intra-European agreements.

The widespread interest in these activities has gradually led to the realization that the process is highly complex. The editors of *Hands Across Frontiers* have chosen eleven examples of technical assistance new-style but have not limited them to governmental activity. They have also included several cases of private activity.

The United Nations activities are represented by the program in Afghanistan and the work program of the United Nations Relief and Work Agency for Palestine Refugees in the Near East (UNRWAPRNE!!). The record of neither case reveals great success. The Afghan venture might be called "The Case of the Frustrated Experts". That in the Near East could be labeled "Let George Do It" in which George is the United Nations. It is to be regretted that more successful cases were not selected.

The intergovernmental projects, however, are represented by such successes as the work of the Peruvian "Servicio" and the public roads

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program in Turkey. The first of these ventures established a successful agricultural extension program while the second resulted in the development of a Public Roads Department and training men to function with modern road-building machinery.

The organization of the labor-market machinery in Japan under the Occupation is an example of the United States trying to remold Japanese customs. It is the reverse of the Japanese program which adapted Western military, industrial and educational techniques to its own ideas of national development.

Private ventures in technical training are illustrated by four outstanding undertakings. (a) Aramco's Project for the development of private contractors to carry out many of its non-oil-development functions in Arabia is corporate statesmanship at its wisest. (b) The American Friends Service Committee's venture into Indian village revitalization is valuable as an example of many religious ventures in this field. (c) The program of the Rockefeller family in exploring "basic" investment in Brazil is enlightening from the standpoint of both success and failure. (d) The ten-year program (1914–1924) of the International Health Board (Rockefeller) to eradicate hookworm from Ceylon is a thoroughly documented record of the limitations of this type of public health program. (It is interesting that the editors went back forty years for a public health case.)

There are two other cases. One deals with land reform in Formosa under Chinese administration. The other describes a resettlement program in Nigeria under British colonial administration. As technical projects, neither is enlightening. In Formosa the activities of the Joint Commission on Rural Reconstruction (American-Chinese) include many successful technical projects. But land reform was and is a political activity far more than a technical assistance project. The British Colonial Administration's resettlement undertaking, while interesting in itself, sheds little light on the nature of transfer of skills.

There is one major weakness common to all the reporting of the cases. The authors have failed to report the attitude of the receivers of technical assistance. In a number of places there are hints of the nature of the reception, but the record available to the reporters seems to have been limited in this kind of information. This is not to suggest lack of objectivity. The writing is fair and has no signs of "superiority".

There is much to be learned from these cases by anyone interested in international relations or the special field of technical assistance. But governmental activities labeled technical assistance still touch the major areas of cultural interchange to only a limited extent. The major trans-

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fers take place through the activities of the military services, of private business in its industrial and commercial aspects, and in the functioning of the mass communication and educational institutions. The cases do not deal with these areas of transfer. However, they do give an idea of the complexity of any attempt to carry out a conscious policy of technical aid.

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Sterling: Its Meaning in World Finance. By JUDD POLK. New York, Harper and Brothers, for the Council on Foreign Relations, 1956.—xvii, 286 pp. $3.75.

In this study, Judd Polk examines the factors responsible for the decline of sterling from its position of preëminence as an international currency and seeks to determine, on the basis of an analysis of existing strengths and weaknesses, its probable future. Although Polk properly focuses attention on the post-war trials and tribulations of sterling, he does not neglect its historical evolution. Indeed, he finds the seeds of sterling's difficulties in two developments which were clearly discernible in the pre-war period: the emergence of large national markets and the displacement of Britain by the United States as the leading country in the world economy. The former development reduced the relative importance of international trade and made it ever more necessary for large trading countries to assign first priority in formulating their economic and financial policies to national rather than to international considerations. This precluded the possibility of managing a currency to suit international requirements if, in doing so, important domestic objectives, like the attainment and maintenance of full employment, had to be sacrificed. The latter development rendered Britain incapable of controlling the conditions necessary for international equilibrium by the deft management of sterling as she had once been able to do.

Although sterling's difficulties antedate the war, wartime developments, which completed the transformation of sterling from an international to a regional currency, brought the sterling problem to the fore. The strains and stresses within the sterling area, moreover, make it uncertain whether sterling can maintain even its current regional rôle. In examining the post-war sterling-area arrangements, Polk finds a distinct weakening of many of the cohesive forces. First, Britain, as the metropole of the system, was unable to generate sufficient savings in excess of domestic investment to supply the outer sterling-area countries with the capital

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they desperately wanted. Secondly, Britain's inability to provide the sterling-area countries with a sufficiently large volume of capital goods has led to a decline in her relative importance as a supplier to the area while the relative importance of the United States has increased. Thirdly, the system has thus far failed to develop the flexibility required to prevent the periodic crises which have been the most arresting characteristic of the post-war sterling-area arrangements. Finally, many of the political bonds which in the past have held the system together have been weakened somewhat by the granting of independence to the formerly dependent territories, a development which is likely to be accelerated in the future.

In spite of these developments, Polk is optimistic about the future of sterling and the sterling area. This optimism is all the more remarkable in view of the fact that he discounts the need for defensive arrangements to isolate the sterling countries from either the dynamism or the instability of the American economy. Compared with the weaknesses in the current sterling-area arrangements which Polk's study, perhaps inadvertently, highlights, the strengths of the system seem meager indeed. One need not deny the importance of the steady increase of trade and production within the area, the complementarity of the members' economies, the force of habit of association, and the feeling of belonging together, to assert that these alone are not the ingredients of which regional monetary systems are made. Barring the transformation of the system into a completely defensive mechanism, it seems to this reviewer that the survival of the area depends on Britain's ability to adapt her economy in a manner that would enable her once again to fulfill the requirements of a metropole of an important regional currency system. Although post-war developments lend some encouragement to the view that Britain may ultimately succeed in this task, the road ahead is thorny and optimism is unwarranted.

Despite our disagreement with some of Polk's interpretations and conclusions, we must concur with the view expressed by Professor J. H. Williams in a foreword to this study that he has given us "the essential facts from which . . . alternative interpretations [can be made]." Mr. Polk has written a thoughtful book. It is a worthy addition to the valuable collection of studies on international economic problems sponsored by the Council on Foreign Relations.

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